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Developing New Leadership in a Multinational Environment

by
Ruth Shaeffer

A Research Report from The Conference Board

Contents

page

Highlights v
Why This Report vii
Introduction 1

PART 1: TOP MANAGEMENT: SUCCESSION AND DEVELOPMENT 3
The Changing—and Unchanging—CEO 3
Top-Management-Staffing Challenges 3
Dominance of Strategic Considerations 6
The North American View 6
The European View 7
Planning for Executive Succession and Development 7
Formal Education and Training 9
On-the-Job Training 10
CEO Qualities: Now and In The Future 12
Backgrounds of Present CEOs 13
CEO Development in a Broader Framework 13

PART 2: THE JAPANESE EXPERIENCE 15
The Importance of "Japanese-style" Management 15
Traditional Japanese Management Structure 16
The Board of Directors 17
The Age of Managing Board Members 18
Group Leadership Role of Top Management 18
Traditional Japanese Approaches To Management Development 19
Recent Changes in Management Development 22
Emphasis on International Experience 22
Greater Delegation of Authority 24
Greater Emphasis on Individual Risk Taking 25
More Engaging Personal Leadership Styles 25
Greater Emphasis on Formal Management Education 26
Emphasis on Choosing Younger Business Leaders 27

CHARTS

1: How CEOs Make Major Decisions 4
2: Top-Management-Staffing Challenges 5
3: Characteristics Important to Present CEO's Success 12

EXHIBITS

1: A Typical Hierarchy Within the Board of Directors (The Executive Group) of a Major Japanese Company 17

2: A Typical Professional and Managerial Hierarchy in a Major Japanese Company 20
3: Typical Timing of Managerial Promotions and Retirements in a Major Japanese Company 21

TABLE

1: Profile of the Chief Executive 14

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Highlights

What is new about the ways in which multinational companies develop future leaders and plan for succession to top-management posts? The answers to this question, provided by chief executives from multinational companies headquartered around the globe, form the substance of this report. Their responses were collected primarily in two ways: (1) a mail questionnaire of 277 chief executives from multinational companies, divided about equally among North America, Europe, and the rest of the world and (2) personal interviews with some 60 chief executives in the United Kingdom, Sweden, France, the United States, Canada and Japan.

Chief executives tend to agree—and geography apparently makes little difference—that the principal new top-management-staffing "challenges" are presented by the new strategic situation their companies face and by the evolution of a new arena for top management decision-making.

The five most-frequently cited staffing "challenges" are:

(1) Developing a strategic business perspective;
(2) Building teamwork at the top-management level;
(3) Building effectiveness in managing a wider range of businesses;
(4) Choosing the next chief executive officer;
(5) Providing early opportunities for individuals with high potential to develop general business management perspectives and skills.

Taken as a group, these challenges represent a significant shift toward managing major world-class corporations on the basis of maintaining the competitiveness of their multinational businesses. Rather than managing each sub-business of the company primarily within national economic boundaries, companies around the world are moving more and more to managing product lines as global businesses that cut across national boundaries.

Since each "business" requires a strategy to guide its competitive moves, strategic planning and control have become more vital responsibilities of the heads of major divisions, subsidiaries and sector organizations. But each business unit strategy must be consistent with those of the company's other units and integrated into the overall corporate strategic design. Corporate strategy formulation has become a more diffused process, involving general management executives at several levels of the company. Unlike the past, when corporate planning and control were virtually the exclusive domain of the chief executive and a few other corporate-level executives, top management groups today frequently include heads of major business units. Business unit heads are expected to participate extensively in formal and informal strategic planning procedures.

Far more than in 1969, when The Conference Board last examined the job of the chief executive, CEOs say they do not know enough about the multiple businesses their companies engage in to make major business decisions alone. Furthermore, contemporary CEOs are more conscious than their predecessors of the fact that having the title does not guarantee followers. There is a collective emphasis on "leadership" as the CEOs' quintessential role. The test of their leadership is gaining the voluntary commitment of their closest associates.

These fundamentally altered attitudes extend to equally fundamental changes in the ways that companies develop future leaders and plan for succession to top-management posts. So closely are strategic planning and executive succession interrelated that when the chief executives are asked how their companies prepare their top-level executives, many of them launch into a description of the company's strategy, organization, and planning processes. The formal strategic business-planning process epitomizes what they want their operating executives at various organizational levels to focus on. It also formalizes how they want them to work together.

The chief executives appear to assume, almost without exception, that the best way for company executives to learn about the facets of their jobs is by doing—over and over again—until the experience becomes an integral part of the way they think and act. Ideally, the chief executives would like their top-level executives to learn how to be effective corporate-level strategists by moving up through a series of line operating management positions, each of which provides additional experience and seasoning through progressively more demanding and active involvements in the company's strategic business-planning process.

Formal management training courses—both inside and outside the company—are regarded as an integral part of this development process. Executives all over the world value general business management education—the MBA, and its

equivalents outside the U.S.—as a good starting point. This is then supplemented at various points in the managerial career with short courses, generally no more than a few weeks in length, that provide specific managers' needs.

Specific areas in which top managers felt their successors would need experience and formal training included:

- The key businesses in which the company will operate;
- The key countries in which the company will operate;
- The key technologies—productive, distributive, and managerial—that the company will use.

Why This Report

Unpredictable, unstable, unforgiving—these are some of the terms that chief executives of major multinational corporations use to describe the faster-moving, more global business environment their companies find themselves in. And their competitors in that world strike them as sophisticated, cut-throat, sometimes even unfair.

What new kinds of multinational business leadership do giant corporations need to succeed in such a turbulent environment? Which strategies and management systems must be devised and implemented? How do chief executives in Europe, North America and Japan plan for top-level executive succession and development when the future seems so uncertain?

This study, which was commissioned by today's world business leaders in preparation for their 1985 International Industrial Conference, addresses these urgent issues. It highlights the fact that as multinational corporations all over the world increasingly come into direct competition with one another, they are converging toward much the same general approach to managing their affairs.

We are grateful to the many CEOs and other senior executives all over the world who contributed to the success of this study, both by completing detailed questionnaires and by agreeing to lengthy personal interviews.

We are especially pleased that the report includes a chapter focusing on the Japanese experience. The Conference Board is indebted to Mr. Nihachiro Hanamura, Vice Chairman of the Keizai Dantai Rengo Kai (Keidanren) and to Mr. Katsuhiro Fujiwara, Deputy Director of that organization's International Economic Affairs Department, for their assistance in arranging interviews with Japanese chief executives. We also wish to acknowledge the valuable contribution made by Dr. Mitsuyo Hanada, Associate Professor, Sanno Institute of Business Administration and Director, Center for Organizational Research and Education. He actively participated in the interviews, provided several background briefings and reviewed the manuscript for essential accuracy. Any remaining errors are, of course, the reponsibility of the authors.

JAMES T. MILLS
President

Introduction

THE CORPORATE SEGMENTS of the economies of North America, Europe and Japan are becoming internationalized at an ever-increasing pace. The pre-World War II concept of "international trade" through imports and exports has been yielding to competitive forces that result in the establishment of plants and service-producing businesses in other countries. Such genuinely multinational businesses are now found everywhere in the industrialized Western world.

The changed nature of competition affects all aspects of corporate life, including decisions on the very nature—or desired nature—of the business. "What we are" must be followed by "what we want to be" in defining most contemporary businesses.

In order to put these changes into perspective, The Conference Board has conducted three related studies—related insofar as they focus on this worldwide phenomenon of change, and that a considerable portion of the data for each came from one questionnaire addressed to CEOs in North America, Europe, Latin America, and the Far East. A considerable part of each study is based on interviews—some with people other than CEOs. This report focuses on plans and programs for developing leaders for multinational business.[1]

The increasingly international character of corporate business, the faster pace of competition, and the necessity for changing strategies have led to a convergence of management styles. Nevertheless, historic, geographic and other cultural differences are still very evident, possibly because of the relatively short time over which these developments have occurred.

Approaching the problem culturally, it is clear that the "Japanese style" has made a significant impression on competing managements everywhere in the world. For this reason, the remainder of this report has been structured in two parts: (1) the general issues of top-management development and succession, using primarily European and North American examples, and (2) a more specific consideration of the Japanese approach to these problems.

[1] The other two are: James K. Brown, *Refocusing the Company's Business*, Report No. 873, 1985; and Harold Stieglitz, *Chief Executives View Their Jobs: Today and Tomorrow*, Report No.871, 1985.

Part 1

Top Management: Succession and Development

"TOP MANAGEMENT" is a broader concept than "the chief executive" or, even, the "chief executive office." This is particularly true now that any one company is likely to include multiple international businesses. As organizations are adapting to a new environment, it is not possible to develop any one definition of the "top management" whose replacements need to be developed. Nor is it really possible to know what "top" jobs there will be 15, 20 or 30 years out. A good starting point, therefore, is the chief executive officer, although that job, too, has been undergoing change.

The Changing—and Unchanging—CEO

An earlier Conference Board study makes it possible to consider the differences and the similarities in the CEO's job between 1969 and the present. In both instances, the source of information was a group of CEOs.[1]

According to these data, what has *not* changed is the reserved responsibilities of the CEO—making plans for the future, selecting key executives, and monitoring and evaluation. Planning "has become strategic rather than long term; 'monitoring and evaluation' is more acceptable than 'inspection and control' "—but the functions and their priorities are there. Nor has reliance on a chief executive office changed, although it is now far more evident, and often less formalized. The multiple CEO office is no longer a novelty, although it is no longer usual to designate the three, four or five people comprising it on an organization chart.

What *has* changed, according to Stieglitz, is the individuals. The changed emphasis is most apparent in their utter dependence on a strong group of top executives; in the consequent pattern of delegation and decision making; and in their collective emphasis on "leadership" as their quintessential role. The CEOs' heightened dependence on "making things happen"—the role of a leader—is most evident in their approach to delegation in decision making. Far more than in 1969, they do not know enough about the multiple businesses their companies engage in to make the major decisions alone. (See Chart 1 on p. 4 for a summary of how CEOs arrive at decisions.) And contemporary CEOs are more conscious than their predecessors of the fact that having the title does not guarantee followers: The test of their leadership is gaining the voluntary commitment of their closest associates.

As would be expected, these fundamentally changed attitudes and procedures extend to equally fundamental changes in the ways in which companies develop future leaders and plan for succession to top-management posts. The two matters are so interrelated that when the chief executives are asked to describe how their companies prepare their top-level executives, many of them launch into a description of the company's strategy, organization, and strategic business-planning processes. The formal strategic business-planning process epitomizes what they want their operating executives at various organizational levels to focus more attention on. It also formalizes how they want them to work together. The chief executives appear to assume, almost without exception, that the best way for a company's executives to learn how to do their job is by doing it—over and over again—until it becomes an integral part of the way they all think and act. It is not that the chief executives believe that the skillful management of day-to-day operations has become unimportant. Rather, they believe day-to-day operating management must be carried on in a coordinated way, within a longer-range purposive context that all the operating executives of the business unit have worked out together. Ideally, the chief executives would like their top-level executives to learn how to be effective corporate-level strategists by moving up through a series of line operating management positions, each of which would provide additional experience and seasoning through progressively more demanding and active involvement in the company's strategic business-planning process.

Top-Management-Staffing Challenges

The questionnaire provided a list of top-management-staffing "challenges" and asked the respondents to check all that they considered "key" for the next three to five years. The responses are shown in Chart 2 (p. 5). The 277 respond-

[1] Harold Stieglitz, *Chief Executives View Their Jobs: Today and Tomorrow*, Report No. 871, 1969; and 1985.

Chart 1: How CEOs Make Major Decisions

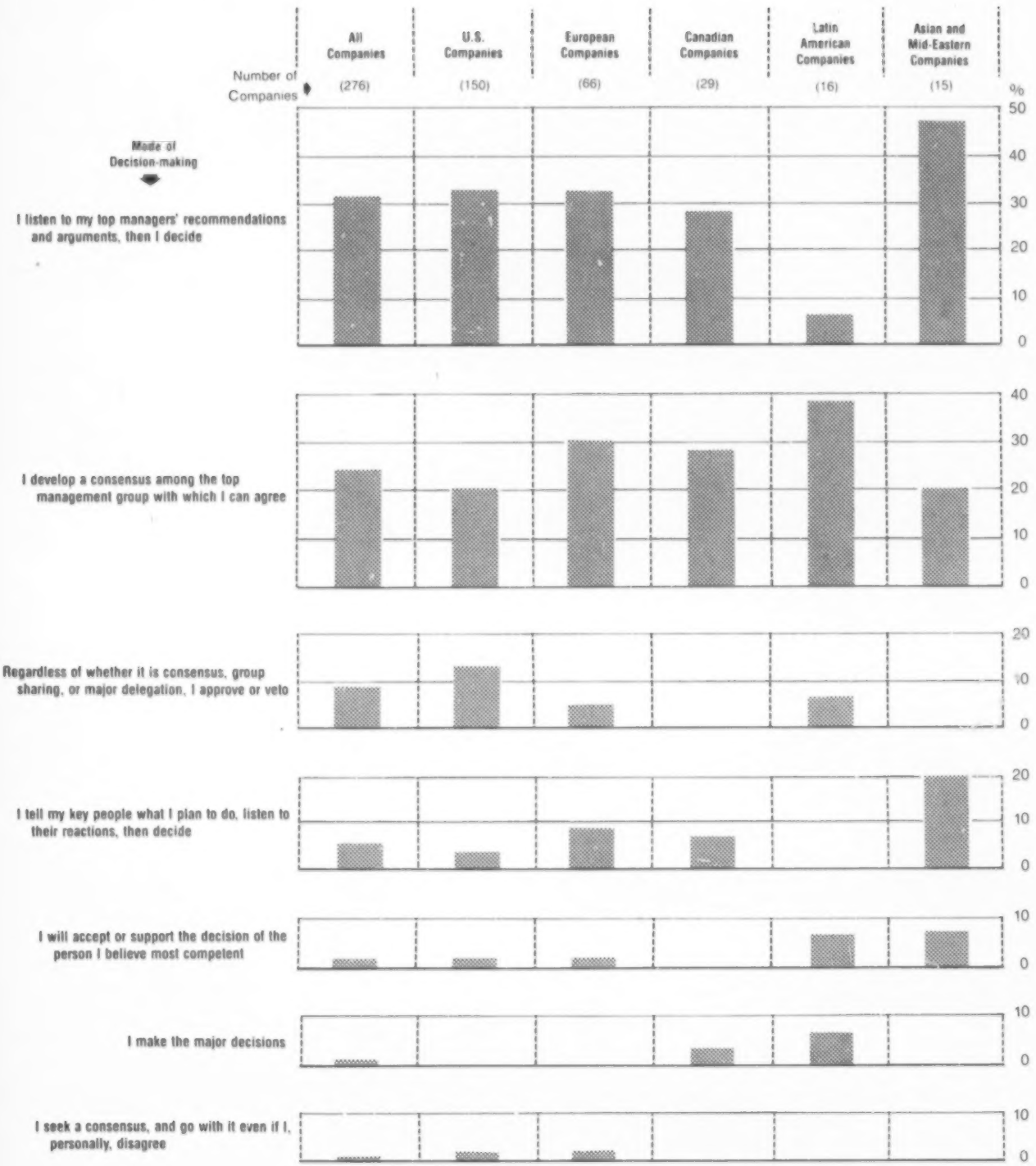
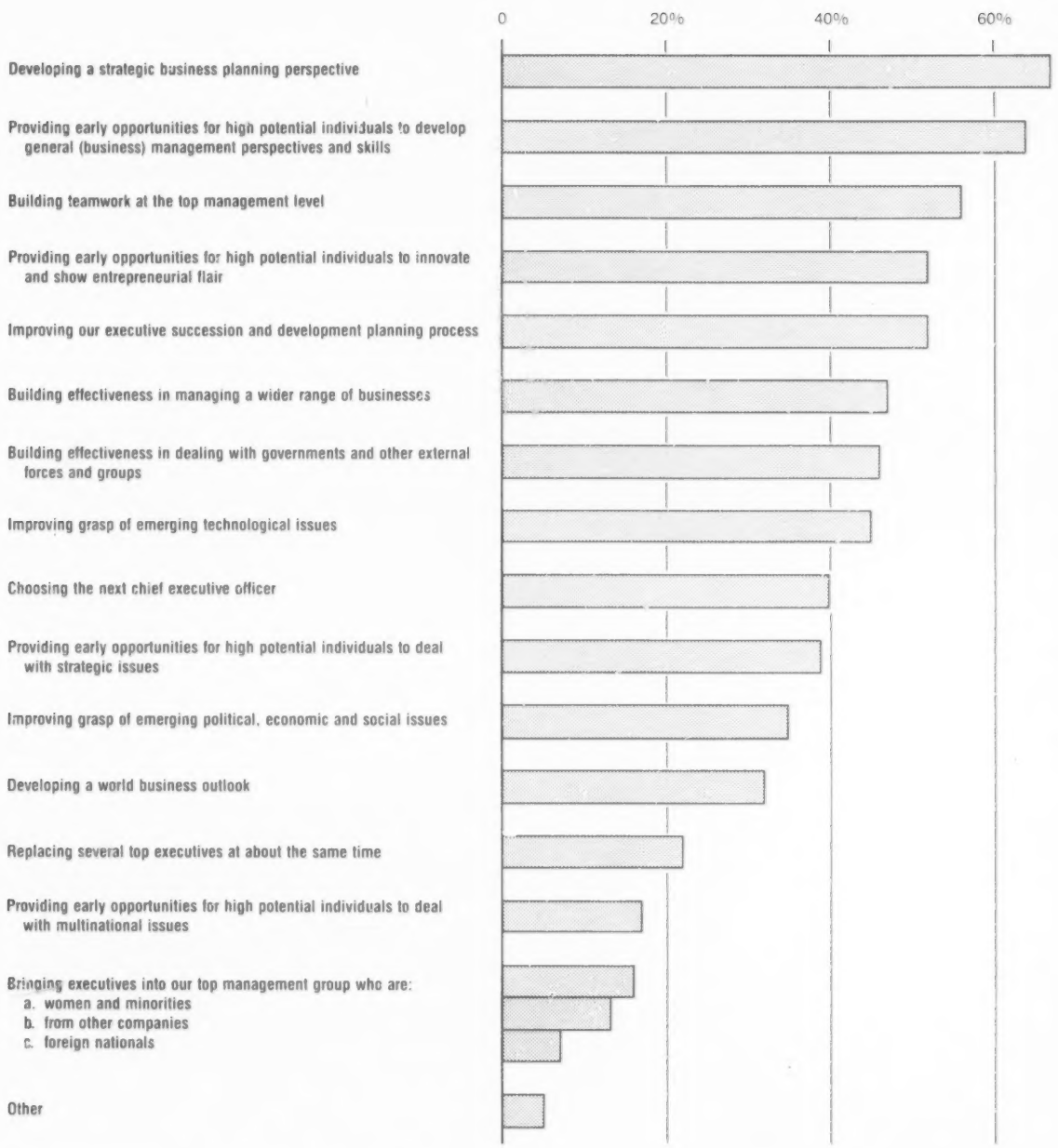


Chart 2: Top-Management-Staffing Challenges


0
20%
40%
60%
Developing a strategic business planning perspective
Providing early opportunities for high potential individuals to develop general (business) management perspectives and skills
Building teamwork at the top management level
Providing early opportunities for high potential individuals to innovate and show entrepreneurial flair
Improving our executive succession and development planning process
Building effectiveness in managing a wider range of businesses
Building effectiveness in dealing with governments and other external forces and groups
Improving grasp of emerging technological issues
Choosing the next chief executive officer
Providing early opportunities for high potential individuals to deal with strategic issues
Improving grasp of emerging political, economic and social issues
Developing a world business outlook
Replacing several top executives at about the same time
Providing early opportunities for high potential individuals to deal with multinational issues
Bringing executives into our top management group who are:
a. women and minorities
b. from other companies
c. foreign nationals
Other

ing CEOs also ranked the *five* challenges they believe have the greatest impact on the company's success. When these rankings are combined and weighted (taking into account both frequency of mention and standing among the ranks), the top five are:

(1) Developing a strategic business perspective;

(2) Building teamwork at the top-management level;

(3) Building effectiveness in managing a wider range of businesses;

(4) Choosing the next chief executive officer;

(5) Providing early opportunities for individuals with high potential to develop general business management perspectives and skills.

The five challenges should not be regarded as separate, unrelated executive-development needs: They are five interrelated aspects of a significant shift toward managing major world-class corporations on the basis of maintaining the competitiveness of their multinational businesses.

Dominance of Strategic Considerations

Although strategic responses to a new style and pace of competition dominate responses to any discussion of management issues and practices, there are, nevertheless, regional and historical differences in their situations and their approaches.

The North American View

U.S. and Canadian chief executives share common strategic perspectives to a large degree. For example, chief executives in both countries usually cite the same changes in the nature of their competition:

(1)Technology—especially the computer and related means of manipulating and communicating information—is changing what they produce and also the way they produce, market, manage and define their businesses. Moreover, they are aware that this new technology is becoming available on a global basis.

(2)Foreign competition is invading home markets and both U.S. and Canadian companies meet fierce competition abroad. Markets no longer stop at national boundaries; neither do corporate operations.

(3)Governments are becoming concerned about national competitiveness, and are entering into the competitive struggle—through "protectionism," through deregulation and "reregulation" of business, and through various subsidies.

(4)Changing social, economic and demographic patterns—regional, national and global—are leading to the emergence of many new markets and the decline of many old ones.

The chief executives in both countries typically see these changes as fairly fundamental, requiring close attention from senior executives, and, in many cases, requiring major redeployment of resources. However, there are differences between them: In the United States, technological productivity and product innovation are most often posed as the great hopes for the future, and U.S. firms tend to be preoccupied by the defense and expansion of their U.S. markets. Canadian chief executives see growth mainly in international terms, with the United States presenting the primary target—but only one of many. Canadians, too, are far more preoccupied by the activities of governments in the economic arena—foreign governments, especially the United States, but their own as well.

The common perception among today's North American chief executives is that they are not confident that they can predict what radical structural changes lie ahead. They say their corporations must be staffed and organized to absorb the shock of unexpected, discontinuous change, as well as more predictable challenges.

For almost thirty years following World War II, the business outlook for most U.S. and Canadian corporations remained so unusually favorable that it was easy for chief executives to assume that the future of their firms would simply be a projection of the past. Their continuing success encouraged them to stay in much the same lines of business. Professional management was considered the key, and the management system was specially designed to manage efficiently the planned expansion of existing operations, while providing maximum short-term operating profits.

By the early 1970's, the boundless postwar market looked increasingly bounded. Profits were harder to come by and new technologies were beginning to have an impact on the market. Strategic business planning began to have an impact, too. New theories and concepts were being developed to position a particular company's businesses or business segments against their competitors, and to guide the company's investment of capital resources among its various subbusinesses. Most significantly, strategic-planning exercises made managements face the questions of whether they were in the right business or mix of businesses—often for the first time since the company's founding.

Such questions turned out to be devilishly difficult to answer, given the company's traditional "top-down" decision-making framework. This information existed, if it existed at all, at the operating levels of the company. Introducing it into the company's planning on a timely and accurate basis was taken to require greater involvement of operating management in strategic planning. Also, participation of operating executives in the planning seemed to improve the reality of the plans themselves, and to increase the speed and thoroughness of implementation.

Further, the increasing unpredictability of the environment changed the nature of the planning process itself: Less of the planning was amenable to precise step-by-step operational planning; more was devoted to setting general strategic directions, identifying critical issues, and managing the integration of change into the ongoing business. As one chief executive comments: "It is what a company does, not what it plans, that is its real strategy."

A Canadian executive recalls: "The fellow I succeeded was a very positive and dominant guy. He did a lot of things based on his intuition. It worked for him but the world is getting too complex for it. There is a lot of strength to be gained in drawing on the collective intelligence, understanding and participation of a group, rather than having the whole corporate hierarchy depend on the physical strength, ability, intelligence, and intuition of a single guy."

Chief executives who distribute strategic-planning responsibilities do not seem to feel they are giving anything away. As one U.S. chief executive described it: "Instead of detracting from or weakening the role of the CEO, the use of this new approach actually strengthens the CEO because it makes the entire organization more effective."

There are many reasons for a collegial approach. It requires line executives rather than staff assistants to devote attention to planning and allows them to learn from one another. It also ensures that all the major actors will be fully exposed to the reasons underlying the need for strategic change. Further, it holds out the very real possibility that a strong, positive coalition will develop in support of a particular strategy. One U.S. chief executive says of this process, "It all takes time, but it's worth it, because when you're through there is a consensus on what needs to be done and why, enthusiastic consensus among the very people who must do it, working together."

The European View

Like their colleagues elsewhere, European chief executives frequently use words like "turbulent," "volatile" and "unpredictable" to describe the changing competitive environment of their businesses. But Europeans tend to take the long view and to stress continuity. Even in such volatile businesses as the consumer food industry, a European chief executive asserts of the current environment: "I don't think it has been a dramatic change. It has not been discontinuous. It has just speeded up. These trends in the environment have been moving faster." The chief executive of a major Swedish bank says: "I think that at every time in the past those who were then living thought that the world was a little turbulent. But when you take the longer view, maybe you find it a little smoother." And from a French manufacturing executive: "I have the feeling that everybody had time in the glorious 1960's. Now time is a very, very important dimension if we want to survive."

Of course, each European chief executive has his own views of what the "trends" are, and which are most important. Some emphasize technological factors; others stress social or economic factors. But more of the Europeans interviewed for this report fashion their visions of the future around a changing landscape of competition: a declining Europe; the rise of the Pacific rim from Korea to Singapore; Japanese and Third World penetration of European markets; and the shift of the U.S. economic center westward.

The most significant geo-competitive element for Europeans these days, however, remains "Europe"—or rather the lack of it. European executives are quick to point out that there is no "Europe"—and there is not likely to be one. Major European multinationals tend to center research, development and production in the home country, and staff their senior managements almost exclusively with home-country citizens. Indeed, the only European companies with internationalized senior management boards are Royal Dutch-Shell, Unilever and the European subsidiaries of such U.S. corporations as General Motors, Ford and IBM.

This fragmented, nation-oriented Europe is an increasingly inconvenient reality for Europe's businesses. As they see it, a national base may be adequate for production and central management, but a continent-sized market is seen as essential for marketing products competitively. A West German steel-company chief executive described the new reality in these terms: "With only 60 million people, Germany is too small. At the very least, we must be European. No country in Europe has a home market large enough to sustain major corporations. Multinational operation is a fact of becoming competitive even in our home markets."

European-mindedness has become a common business orientation. For most, possibly for all those interviewed, the EEC is becoming "the home market."

Not all European executives are especially comfortable with this increasing "Europeanization." A British executive observed: "Quite frankly, many of our people find foreigners wearing." French and German executives also point to the wear and tear that goes with doing more business in more than one culture. But more European businessmen, especially those in Scandinavia, the Low Countries, and Italy, are becoming the supporters and spokesmen—some would say the primary advocates—for a more unified Europe. European chief executives have spawned a number of multinational groups—the European Roundtable, for example—devoted to advancing European cultural and social institutions. Fueling this business interest in greater European unity is the desire to counter the "powerful" entry of countries such as Japan and Korea into European markets. Another is the perception that the "maturation" (some call it "stagnation") of European markets could be reversed if some of the "rigidities" of nation-state economies were ameliorated or eliminated. But in describing the current business environment, there is little confidence among European chief executives that anything will lead to greater economic unity in the near future. Nor is there much expectation that the political and social conditions that have made the economies of Europe "mature" and sluggish are about to disappear.

Pessimists and optimists alike have been excited by the changing global competitive landscape. Those who can do so are becoming more emphatically global in their operations. North America and the nations of the Pacific rim are the favorite targets for increased investment and marketing activity.

But, like executives around the world, a large majority of Europeans also foresee their product and service offerings being dramatically affected by technological developments in the near term. The impact of computer and telecommunications technology is especaily pervasive, affecting product offerings across the spectrum of manufacturing and service industries. A French banker, for example, saw much greater impact on his firm from technological sources and resultant changes in the structure of global financial markets than from nationalization (for, after all, the French banks were more or less nationalized in 1946) or changed regulation by a Socialist government.

Planning for Executive Succession and Development

It takes time to develop a seasoned top-management executive, and most of the chief executives who were queried

on this point said they would much prefer to have that seasoning process take place inside the company. They point out that a thorough knowledge of the industry, of the company, and of the key people who work for the firm are essential in planning competitive strategies that capitalize on the company's unique advantages. And they add that the "insider's" familiarity with how to get things done is often critical to implementing those strategies in a smooth, well-coordinated way. Obviously, being an "insider" is not sufficient to qualify someone for a top job, but it is considered a very real "plus."

With very few (mostly European) exceptions, these CEOs are such strong supporters of a "promote from within" policy that they believe the company should not hire executives from outside the firm unless there is need for special knowledge or skills that are not available internally. For example, they might hire someone who has experience in a line of business the company wants to diversify into or someone who knows about some new technology it hopes to use. Similarly, a rapidly growing company is likely to need to supplement its promotions with additional executive hiring. But, even then, unless the outsider is already a "superstar" they would much prefer that the individual come in at least one or two rungs below the top of the ladder and, if successful, then be promoted from within. Implementing such a "promote from within" policy in today's unsettled world calls for careful executive succession and development planning.

All companies do some kind of planning for key-executive succession and development—if only inside the CEO's head. Small firms are least likely to have formal development-planning systems. In fact, the larger the firm, the more likely it is to report formal succession and development programs. Approximately two-thirds of the firms surveyed that have sales of more than U.S. $3,000 million per year have formal executive-succession and development-planning programs.

As companies have become larger, more diverse, and more spread out geographically, more and more-chief executives have felt the need for increasingly *formal* planning programs. This does not necessarily mean printed forms, detailed written procedures, voluminous records, or a computer-based information system. It *does* mean that the planning procedure or approach has been thought through and is being followed with reasonable consistency on a scheduled basis. In Japan, where promotion and succession plans have followed a highly traditional pattern, the new environment is resulting in significant modifications. The trend in the United States is toward extending formal corporate education and training programs to higher-level executives and adding strategic considerations to the content.[2]

CEOs say that old-style, static plans that assumed there would be no change in the nature and number of the company's executive jobs and simply called for replacement backups for each individual executive are a waste of time in the new business environment. So, too, they say, are plans that simply made sure that all up-and-coming managers "got their tickets punched" as having attended certain education or training courses at various stages in their careers, and as having been rotated through a specified series of different job assignments. Replacement-planning and planning for well-rounded development are still important, but today there is much more to executive succession and development planning.

Executive-development planning works best when it is tailored to individual differences in interests and to individual strengths and weaknesses. The plans often proceed on a schedule unrelated to natural attrition rates in order to keep key executives challenged. They must also take into account the changing demands that will necessarily be placed on the company's executives in the future. Chief among these at this time is the widespread need to become adept in planning and implementing strategic change on a global basis. But individual executive positions will predictably require different competencies as specific business strategies evolve. And, of course, there will always be many unanticipated changes. For this reason, many companies give special emphasis to identifying and developing individuals who function well under conditions of uncertainty.

There appear to be two schools of thought about how best to integrate the company's executive-resource planning with its strategic planning. Many European and North American CEOs say that the only way it works well is to have the *line organization* do both kinds of planning, with the firm's human-resource executives and corporate-planning executives providing staff assistance to facilitate and monitor the effectiveness of the whole process. In Japan, however, the personnel executive usually has the final say on appropriate job assignments for managers until they are very close to the top of the organization.

No matter whether a line-driven or a staff-driven planning approach is being followed at lower-middle-management levels, by the time executives are within a few organizational rungs of top management, the CEOs themselves are likely to take an active interest in their development—even in divisionalized companies. In addition to reviewing the development plans for all these potential top executives and keeping track of their progress themselves, CEOs seek opportunities to become better acquainted with them, to observe them in action, and to test out their judgment in responding to new situations.

Most important of all, the CEOs say, is to make sure that executives with high potential get really tough, demanding job assignments that not only make good use of what they have already learned but also stretch and test them in new ways—literally forcing them to grow and develop by coping with complex new problems in a business-management context. According to a Canadian CEO: "The real reward for successfully handling a tough, challenging job assigment around here is being handed another, even tougher, one. That's the only way you can tell who really has the stuff we need at the top."

[2] Seymour Lusterman, *Trends in Corporate Education and Training*, The Conference Board, Report No. 870, 1985.

Developing Senior Executives

Quite clearly, for the chief executives interviewed, senior executive development is accomplished primarily on the job by adjusting and emphasizing the normal job responsibilities so that they include challenging, stretching kinds of work assignments. These assignments have real relevance, real time constraints, and real performance outcomes both for the company and the individual executive. To the extent that the chief executives can influence the process, the chief executives work primarily through the design of the management system and their own leadership skills. One U.S. chief executive, not atypically, referred to himself as "a teacher and a preacher." A Canadian CEO spoke of "imaginatively tailoring individual development to meet the needs of outstanding senior people—rather than always doing the expected."

There is a more or less standard repertoire of methods that companies use when they want to help their executives acquire some new management skill. These methods include:

- Planned use of outside educational programs
- Planned use of in-house educational programs
- Planned on-the-job development
- Planned changes in job assignments
- Processes for guiding individualized development
- Redesign of the organization structure and reward system
- Direct involvement of the chief executive.

While the chief executive may lend importance to such development efforts, the major responsibility for planning and carrying through such programs usually lies with the rest of the line organization, with the advice and assistance of the corporate human-resource department. In general, companies report relatively greater "success" where programs stress individual guidance, tailoring of training to specific job requirements and company conditions, and a positive link between what is being taught and what is happening to the executive on the job.[1]

[1] Ruth Gilbert Shaeffer, *Developing Strategic Leadership*. Report No. 867, The Conference Board, 1984.

Some CEOs keep a special list of "high flyers," who may be described as "corporate property." No change can be made in the job assignments of individuals without corporate-level approval. It also means that before filling any job above a certain level in the division, the division head must check with a corporate personnel officer for the names of individuals in other parts of the company who should be given serious consideration for the position. Sometimes it is even mandated that one of these individuals be selected.

There can be very real tension between the corporation's need to provide sufficiently broad and challenging developmental careers for its future top-level executives and the division heads' interest in promoting someone who can very quickly make an important contribution to the management of the division. Some CEOs say they prefer to handle this conflict themselves—generally by insisting that corporate needs must take priority. But they may be flexible with respect to the timing of the appointment, or as to which individual on a very short list of corporate candidates will be chosen for the job.

However, other CEOs have decided that the staffing of top-level jobs is so closely linked to implementation of corporate strategy that it is really a matter for the entire top-management group to decide. Because this group now includes the executives who head the firm's major divisions, it will look at the whole issue from both the corporate and the divisions' perspectives. Furthermore, these are the same executives who control jobs that will be involved in whatever cross-divisional developmental transfers are deemed necessary to round out the experiential backgrounds of their own potential successors. These CEOs say that the group approach removes much of the temptation to "play games" both in identifying the real "comers" and also in deciding which jobs would be best for developmental purposes. Nonetheless, most CEOs reserve for themselves the final selection of new top-level executives, in consultation with any outside directors.

A company's "high flyers" are often assigned to work together on special task forces that make recommendations to top management. Ordinarily, these task forces include representation from many different functional areas; sometimes the individual task-force members are required to focus on aspects of the problem that differ from their own backgrounds. Full access to both corporate and outside information resources is usually provided.

The task force works on a tight timetable to organize its efforts, to conduct its research, to integrate its findings, to prepare a report, and to make recommendations for action to top management. Much is at stake, both for the task-force members and for the company. The developmental payoffs are primarily in terms of broadened perspectives, and a better grasp of the external forces and the internal interrelationships that determine profitability, and additional experience working within a group to accomplish a goal.

Formal Education and Training

While some companies provide overviews of different kinds of managerial work several times during an executive's career, other companies focus on three key transitions:

Succession in Germany and Sweden

These two short descriptions, based on interviews, illustrate two somewhat different approaches to the matter of succession.

A German Engineering Company

"What does a chief executive officer do to make sure that the right people will run the company in the future? That is one of the most important tasks of the president of the company.

"I look carefully at the young people who are brought to my attention by my colleagues. I spend a lot of thought on these people. I know the family of our major shareholder requires not only very high technical skills but also high moral qualifications. I invite these young men to my home for dinner. Often I give garden parties for perhaps 60 or 90 people in honor of some visiting foreigners. Then I can see how they behave, how their wives behave, how well they get along with foreign people, the quality of their education. We are sticklers for behavior in this country. We don't like people who can't behave properly.

"I may make these chaps my assistants. If they are good we have wonderful opportunities for them. One is now the president of one of our U.S. companies; another is the managing director of our South African company.

"We invest a lot in these people. If they have language deficiencies, we train them. If they are to work in Latin America, we send them to Spain for three months so they speak a really good Spanish.

"At this moment, I do not know that there is a member of corporate management whom I could propose as my successor. So I look about the world a bit, and we have identified two or three people who could qualify. So I might arrange a golf game with some of my fellow chief executives. In the German corporate world everybody knows everybody. Even if we are competitors, we are often good friends.

"As we play, I might say to one chief executive: 'There is a chap in your organization who, we think, can do things for us. What are his chances with you?' He might respond: 'Well, his boss is only three years older, so I can't offer him anything like your opportunity. You can have him.'

"This is no written law we are talking about. It is a gentleman's code, but if somebody does not behave honorably in this way, he will have a lot of difficulties in German industry."

A Swedish Manufacturing Company

Succession for technical and business positions in this company is closely watched from the top. Great attention is given to providing broad business background at an early point in managerial careers. The company's chief executive explains: "You only get business ability by moving up and having the responsibility for working over more than one area. It is so important that you have the parts of the puzzle from the beginning: that you understand production, the markets, the technology. Not as an academic case, but in actual managerial experience.

"We try to avoid having people jump from being a single-faceted tehnological expert to becoming president of even a small company. First, we try to expose them to personnel, economics and finance. Then we put them into a smaller company or division to pick up the extra knowledge they need.

"Every boss here is responsible for his people, their training, and their career planning. If someone dies or leaves, there must be a planned successor of top character who could fill in for the position.

"At corporate level there is a personnel officer who is involved whenever a top position is to be filled."

(1) when the individual first becomes a manager; (2) when he or she becomes a general manager; and (3) when the individual is first given an international assignment.

Both external and internal courses are used to provide an introductory frame of reference or a theoretical backup for subsequent learning by doing. Among the reasons offered for preferring in-house training programs are:

- To enable the participants to get to know one another and to establish useful networks;
- To use successful higher-level executives as teachers of "best practices" and potential role models for the student;
- To convey and reemphasize the cultural norms and performance expectations that top management wants to permeate the corporation;
- To provide timely, relevant information about the company's current outlook and about some of the key issues imposed by the changing environment to executives who will be doing strategic planning.

External courses are seldom used for all management training for potential top managers. Instead, a few especially promising individuals may be sent to prestigious schools to keep the company abreast of current thinking and to guard against complacency. In addition, outside courses may be used for individuals going into international assignments; for individuals needing highly specialized education; and for individuals who have not previously studied business management or who need to broaden their horizons substantially on the role of business in society.

On-the-Job Training

But CEOs all over the world agree that such courses merely set the stage for the more effective learning that takes place on the job. Dealing with today's and tomorrow's real business problems—problems that have real consequences both for the company and for the executive, say the CEOs, is the

Succession in North American Companies

Succession planning in North American companies analyzed for this report typically aims at providing a pool of seasoned candidates for operating and top management level jobs. Basic to this planning is a careful consideration of how these jobs are expected to change over the next five years or so. There is much talk among executives of "crown princes" and "heirs apparent" who are "anointed" for top-management and business-unit-level executive positions on the planners' replacement charts. But most systems are designed to provide boards of directors and the senior executives who must actually fill these jobs with a choice among a number of suitable candidates.

While each company brings its own problems and perspectives to succession planning, the following system described by the chief executive of a Canadian manufacturing company is fairly illustrative of North American management thinking:

"We have a formal human resource committee, which is a sub-committee of our eight man top management planning group. We do formal succession planning for what we call the 'top 100' people in the company. This 'top 100' comprise the chairman and the first and second level people here at headquarters. It also includes the president of the operating divisions and their first line. Each year we do a formal succession plan for each of these positions, the product of which is a career plan for each member of the top group. Then, once a year, we have a formal appraisal system for which we establish objectives and measure the 'top 100' on how they have done.

"Below this level, succession planning for the division is the prerogative of the division head. But we also have a 'high-potential list' designed to provide a pool for the potential successors of the present company leadership. We also try to develop career plans for individuals on that list (which presently comprises about 3 percent of the company's salaried work force).

"We don't go for one successor. We color code every one of our top group on the succession plan with a green 'promotable,' a yellow 'not ready,' or a red 'not promotable.' We have three candidates for each job: an A or 'prime' candidate, a B, whom we expect to be ready in two or three years, and a C who is a long-term prospect. We try to monitor how well those people are doing through periodic appraisal and review. Any organizational changes, job changes, or salary changes affecting any of these people have to be approved at headquarters. That way we keep our fingers on them.

"Because of our related diversification strategy we have a real prime need today for general business leaders and divisional presidents. From our point of view, this is a hard company to break into. Therefore, we make do with what we have inside."

In another company, where company experience is not considered so key to job success, the chief executive still maintains that "our objective is to grow executive talent from within, but when your business is growing very fast you can't always. The first thing you do is make sure you have more than one. I spend up to 25 percent of my time making sure we have four, five or six people for key positions: identifying candidates, spending time developing them, and making final selections."

Increasingly, the succession planning systems below the level of the top are "opportunity-centered." They take formal advantage of the fact that ambitious and able young managers will construct their own career paths, mentor networks and succession plans if given adequate, timely information about job opportunities and company strategies and if provided opportunities to demonstrate their leadership qualities in group decision-making settings.

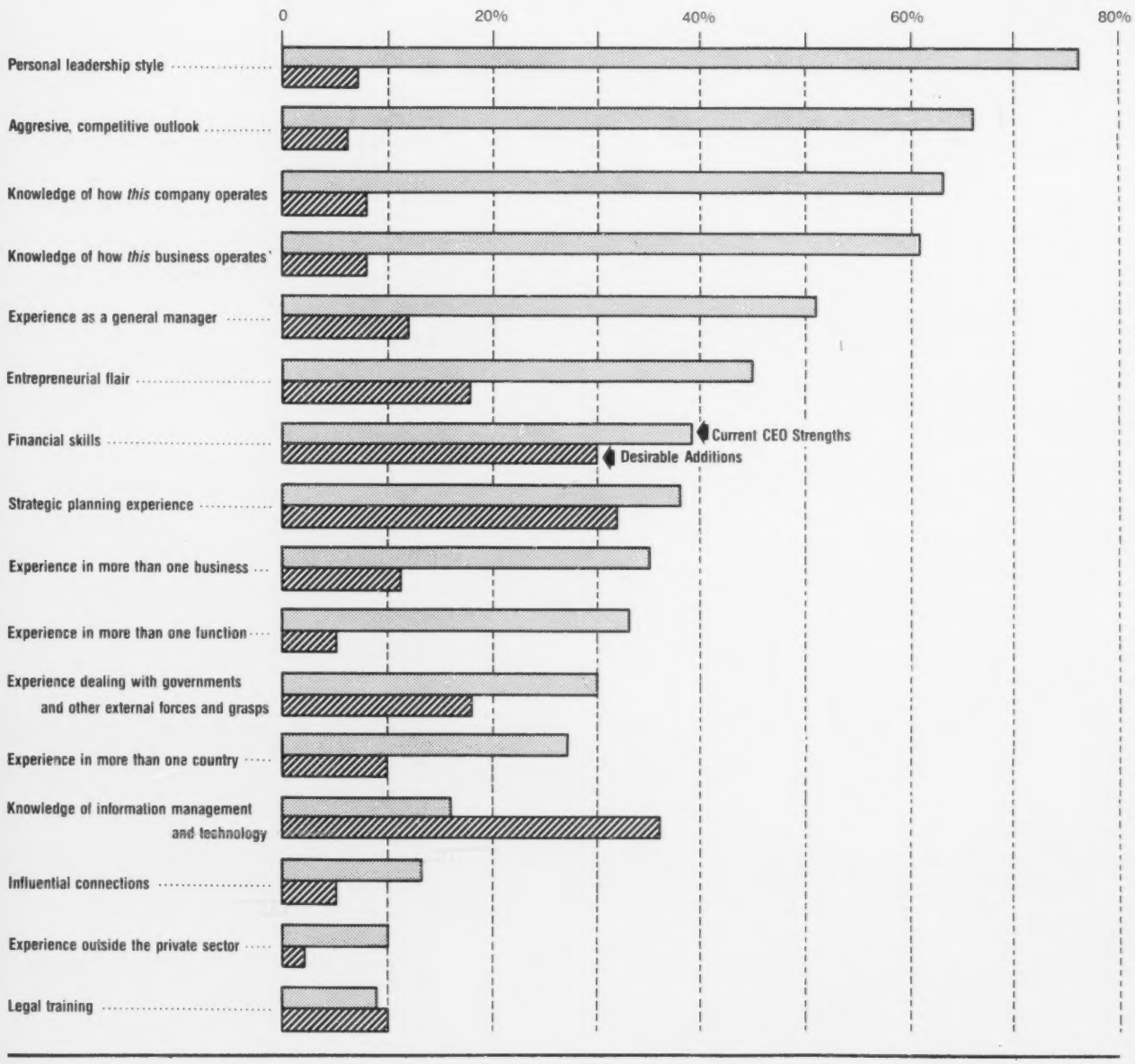
primary way one becomes an effective top-level executive.

When multinational corporations are forced by competitive pressure to manage each of their product-market businesses separately at the same time they are managing each of their major lines of business, in a truly global context, they quickly find that they need strategic leaders, not simply professional managers, distributed throughout the whole organization. Moreover, they now need global business division leaders with a multinational perspective.

The requisite multinational business perspective can be acquired by an international assignment or extensive travel; by being a participant in group discussions regarding the appropriate worldwide strategy for the business; and, later, by being the top-level executive who is the group leader for similar discussion and who participates in discussions of how the company's global businesses should interrelate for the greatest competitive advantage. Although most high-potential individuals are likely to remain in much the same line of business throughout their careers, some companies see to it that those who perform unusually well are given at least one developmental job assignment in a related line of business to broaden their horizons before they join the top-management team. Similarly, their career-advancement paths or their task-force assignments are sometimes designed to expose them to a broad range of different business situations—a start-up situation, a turn-around situation, a rapid growth situation, and so on. (However, some CEOs say that few executives are equally adept at handling all phases of the life cycle of a business and that it is best to allow them to concentrate on those they handle best.)

The point is that long before the multinational company's future business leaders reach the top of the organization they will have had direct hands-on experience with challenges and opportunities very similar in scope and complexity to those they will be expected to deal with at the top. They will also be thoroughly familiar with most of the people both inside

Chart 3: Characteristics Important to Present CEO's Success



and outside the firm with whom they will need to work closely.

CEO Qualities: Now and In The Future

It has already been indicated that almost all the CEOs participating in this study expect to be succeeded by an "insider." Indeed, many indicated that there was someone in the wings "if I should be hit by a truck." The obstacles to "a successor of my choice" are not mentioned, although they are implicit in the emphasis on strategy: a major acquisition, requiring a new set of skills at the top; a merger; a drastic refocusing of the business; the failure of the present CEO's strategy. Any of these is likely to disqualify a CEO's chosen successor. In this context, it is interesting to observe the characteristics the respondents attribute to themselves and those *they* seek in their successors.

The questionnaire asked the CEOs what characteristics they had brought to their jobs that they found critical to their success, and, in retrospect, which other competencies or at-

tributes they wish they had possessed. By putting these two lists together, a composite picture emerges of an ideal chief executive for a multinational corporation in the mid-1980's. Chart 3 shows: (1) the attributes the respondents felt important to their success (as they see themselves); and (2) the additional qualities they would have considered desirable. In the latter group, each item was chosen by roughly one-third of the responding CEOs: knowledge of information and management technology; strategic-planning experience; and financial skills.

Which of these characteristics will be the most important ones for their successors to have? The questionnaire asked for ranking of the top five qualities. When the responses are combined in weighted form, the five at the top were:

- Personal leadership style;
- Aggressive competitive outlook;
- Entrepreneurial flair;
- Knowledge of how *this* business operates; and
- Experience as a general manager.

Backgrounds of Present CEOs

Table 1 on p. 14 provides a statistical profile of the respondents to the questionnaire. In summary, this is who they are and where they come from:

(1) On the average, they are in their late 50's, although those from Asian and Mideastern countries are somewhat older.

(2) Most achieved the top position before age 50; some—more likely to lead smaller firms—before age 40.

(3) The majority have more than 20 years of service with the companies they now head.

(4) The CEOs with the longest tenures are found in Latin America, where they head family-owned companies.

(5) The same picture of a typically "home grown" chief executive is confirmed by looking at the number of other companies today's CEOs have worked for. Except in Europe, more than three quarters of all the CEOs have been employed by no more than two other companies, presumably relatively early in their careers. By contrast, almost half of the European CEOs have worked for at least three other companies—only 20 percent of the U.S. CEOs say they have done so.

(6) The emphasis on promotion from within is expected to continue. Nine out of ten of todays CEOs (eight out of ten in Europe) say their successors will probably—or even certainly—be insiders.

(7) The majority report some education beyond the college level; less than 5 percent (all over 55) say they have less than a high-school education.

(8) Engineering (including physical sciences and math) dominate the educational backgrounds: 41 percent report such studies. Accounting and finance follow with 24 percent. Almost half (48 percent in each case) of the Europeans and Latin Americans have backgrounds in law, economics or social sciences; of these, half are in law.

(9) There are some logical connections between the fields of study and the dominant business of the firms these respondents head: CEOs of manufacturing, mining or petroleum companies are more likely to have engineering backgrounds (53 and 69 percent, respectively); CEOs of financial institutions are more likely to have studied finance (43 percent).

(10) Just over a third (37 percent) say they have MBAs, or an equivalent academic business degree. Younger CEOs are much more likely to report such a degree than are older ones.

(11) Only about half suggest that a change in schooling would have improved their preparation for their jobs. Canadians and Europeans are least likely to wish they had more or different schooling (22 percent and 32 percent) respectively); Latin Americans are most critical of their educational backgrounds (80 percent). Having an MBA, or attending some specified graduate school of business, is the most frequently cited change. Roughly one CEO in five believes this would have helped. CEOs of companies in several unrelated businesses are especially likely to wish they had more schooling—often in languages and communications as well as in business subjects.

CEO Development in a Broader Framework

Most of today's chief executives believe that companies should not change CEOs too often. On average, they think ten years' tenure in the top job is just about right. But once acquired, power is apparently difficult to give up. The longer their own time on the job, the longer they consider it advisable for a CEO to stay in office.

In any event, the development of potential candidates to become CEO is not the central focus of most companies' executive-succession and development-planning programs. Nonetheless, the corporate plans serve this infrequently encountered need at the same time that they provide for the effective development of virtually all the other mid- to top-level executives the firm is likely to need.

Many of the CEOs who were interviewed say that this is one of the special advantages offered by a distributed approach to strategic planning. Logical career paths for general managers—those who have overall profit-and-loss responsibility for specific businesses or groups of businesses—are built right into such a system. These career paths begin at lower-middle-management levels and allow for the seasoning of strategic-management judgment over many years, as the general executives are promoted to head successively broader and more complex business groupings (or as their business units grow).

When companies recognize they are in more than one major multinational business, the general managers who head those major businesses are likely to be included in the top-management group. Thus, they also become part of the group with whom the CEO is sharing overall *corporate* strategy formulation. These business heads, therefore, become a logical pool from which the next chief executive can be drawn whenever the time comes. There is no necessity to narrow down to one "heir apparent" until the time for the CEO's retirement is close at hand. However, there is one person—or a short list—in case that truck should hit.

Table 1: Profile of the Chief Executive

	Total	U.S.	Europe	Canada/ Austr./N.Z.[1]	Latin America	Rest[2]
A. Present Age						
No. of Companies	**287**	**153**	**68**	**31**	**19**	**16**
				Percentages		
39 or less	2	0	7	0	0	0
40-44	4	1	10	3	5	0
45-49	8	7	10	3	21	13
50-54	21	20	19	45	11	6
55-60	35	39	27	32	37	25
61-65	24	29	24	10	16	19
66 +	6	3	3	7	11	38
B. Age when Appointed CEO						
No. of Companies	**286**	**153**	**68**	**31**	**19**	**15**
				Percentages		
39 or less	18	11	25	16	42	33
40-44	17	16	19	19	16	7
45-49	23	22	25	23	21	27
50-54	22	24	21	26	16	13
55-60	19	25	10	16	5	13
66 +	2	3	0	0	0	7
C. Years as CEO						
No. of Companies	**287**	**153**	**68**	**31**	**19**	**16**
				Percentages		
less than 5	34	38	32	42	11	19
5-9	24	24	28	19	26	19
10-15	22	22	19	26	21	31
more than 15	19	16	21	13	42	31
D. Years with Present Company						
No. of Companies	**277**	**148**	**65**	**31**	**17**	**16**
				Percentages		
5 or less	9	6	15	13	12	0
6-20	33	26	43	39	41	31
21-35	40	48	28	32	41	31
more than 35	18	20	14	16	6	38
E. From Inside or Outside						
No. of Companies	**280**	**150**	**67**	**31**	**17**	**15**
				Percentages		
Promoted From Within	67	77	55	71	29	53
Brought From Outside	25	17	42	23	29	27
Founder	8	5	3	7	41	20

[1] Grouped to focus on British Heritage, 22 are Canadian.
[2] Japan, Indonesia, Israel, Lebanon, Malaysia, Philippines, Taiwan, Turkey.
[3] Totals exceed 100% because of multiple entries.

	Total	U.S.	Europe	Canada/ Austr./N.Z.[1]	Latin America	Rest[2]
F. Other Companies Worked For						
No. of Companies	**287**	**153**	**68**	**31**	**19**	**16**
				Percentages		
0	20	23	15	19	5	31
1	27	30	16	42	16	19
2	23	25	18	16	42	25
3	11	9	18	3	11	13
4	7	5	10	10	5	6
5	4	2	9	0	5	0
6 or more	9	6	15	10	16	6
G. Previous Business						
No. of Companies	**214**	**103**	**55**	**25**	**18**	**13**
				Percentages		
Same Business	43	42	47	44	33	46
Different Business	57	58	53	56	67	54
H. Board Memberships						
No. of Companies	**227**	**131**	**50**	**21**	**15**	**10**
				Percentages		
1	16	22	6	5	13	10
2	29	33	22	33	7	30
3	19	24	10	14	20	0
4	13	13	14	14	13	10
5	8	4	14	14	20	10
6	5	3	8	10	0	20
7 or more	10	1	26	10	27	20
I. Years of Formal Education						
No. of Companies	**285**	**153**	**67**	**30**	**19**	**16**
				Percentages		
8 to 12 Years	3	1	6	3	11	0
13 to 16 Years	39	39	34	43	37	50
17 to 18 Years	43	41	48	37	53	44
19 or More Years	15	19	12	17	0	6
J. Educational Background						
No. of Companies	**287**	**153**	**68**	**31**	**19**	**16**
				Percentages[3]		
Business	20	24	16	19	16	6
Finance and Accounting	23	24	19	29	21	31
Law	13	11	24	3	11	6
Engineering	42	41	40	42	53	50
Social Sciences	17	14	24	19	11	25
Humanities	13	15	12	10	5	6
Other	7	7	4	10	11	13
MBA or its Equivalent	37	26	57	32	42	53

Part 2

The Japanese Experience

JAPAN, with almost half the population of the United States crowded into a mountainous, natural-resource-poor area about the size of the state of California, has already become the third most important industrial nation in the world, and is now giving the Soviet Union a strong race for second place. By now, 134 of the 500 largest manufacturing companies outside the United States are Japanese; so are 16 of the 50 largest non-U.S. commercial banks.

Japan has made this progress primarily by relying on international trade—importing raw materials and converting them into goods for export to mass markets all over the world at attractive prices. Most of these goods have not been particularly innovative in their basic design. However, the world has obviously understood—and bought—the value such Japanese products have come to represent.

Having become so successful at sensing and grasping competitive opportunities, the Japanese show no inclination to rest on their laurels. Instead, both Japan's business leaders and its government are convinced that the increasingly global business environment is opening up many important new opportunities for business growth at the very same time that it is foreclosing continued reliance on some of Japan's earlier strategic approaches. They are studying the underlying dynamics of what is going on and "going with the flow"—encouraging changes that are likely to be to Japan's greatest long-term competitive advantage and giving up earlier practices that are now becoming detrimental.

In such key Japanese industries as textiles, steel and shipbuilding, there are increasingly clear indications of maturation—indeed, of market saturation due to excess world capacity. Even in automobiles, electrical appliances, and consumer electronics, the Japanese recognize that growth in existing mass markets has begun leveling off, and that they will be facing increasingly severe competition all over the world from now on unless they can develop broad new markets. Many other, less-developed Asian and Latin American countries are anxious to attempt to replicate the Japanese "miracle."

Moreover, several successive oil price shocks—first sharply up and, more recently, sharply down—have highlighted the special vulnerability of the Japanese economy to unexpected changes in energy costs. The worldwide recession of the early 1980's triggered much greater awareness of Japanese export penetration of the markets of other developed countries. As a result, there are very strong rumblings about trade restraints unless Japan proves willing to provide much greater access to its own increasingly lucrative—and zealously guarded—home market.

As the chief executive of a major Japanese manufacturing firm sees it: "The sharp change in the business environment as a result of the 1975 oil shock convinced Japan's business leaders that we must be prepared to restructure our organizations, and to shift the focus of our activities to different businesses if the changing business environment requires it. We began to study the concepts of business-portfolio planning, developed by the Boston Consulting Group, and we also learned from McKinsey how the product-planning approaches developed by General Electric were being implemented through the strategic business unit structure.

"Now Japanese companies are studying new products and potential products, assuming a broad range of uncertainty about future world business conditions. We are trying to learn which way we have to go in order to remain competitive in that uncertain future.

"In the past, Japan followed the United States and European countries in technology and in the role we played in the world economy. But now we have caught up and must compete in much the same high-technology and service-oriented lines of business. I think all Japanese companies now agree that we must put more emphasis on research and development. We must create the future for ourselves."

The Importance of "Japanese-style" Management

Both at home and abroad the success of Japanese companies has often been attributed to "Japanese-style Management." It is, therefore, important to be aware of the typical traditional management in major Japanese companies, and also of customary approaches to developing managers. Knowing where the Japanese are coming from as they now compete as a major power in today's volatile worldwide economy makes it easier to understand why the chief executives of major Japanese firms are making certain important changes in their executive-development staffing practices.

The Strategic Influence of the Japanese Government

Mindful of the changing global business environment, the Japanese government, through its Ministry of International Trade and Industry (MITI), has announced that "internationalization" and "research and development" (especially of very large-scale integrated circuits, or VLSI's) should now be major themes in Japanese business. MITI has pointed out that VLSI's will be "the rice of industry"—components of virtually every manufactured product.

While they are not *required* to do so, the major Japanese companies are, as usual, responding positively to these strategic advisories from the government. Each company has been left to interpret the themes in whatever way makes sense, given its own situation, but all are aware of how important it is to reduce trade frictions with both developed and less-developed countries while still maintaining Japan's strong competitive edge. For example, major firms in a variety of industries have made these changes:

- A trading company is giving increased emphasis to "off-shore" trading; that is, to trading between other countries that does not directly involve Japan. The firm is also actively engaged in organizing international business ventures, in arranging technology transfers, and in the development of raw materials worldwide.
- An appliance and consumer electronics firm is gradually shifting its emphasis away from the production of consumer electronics products in Japan to their production in less-developed countries. It is also focusing on the research and development that will enable it to become a major producer in Japan of sophisticated electronic components for a much wider variety of industries all over the world.
- An automobile manufacturer is developing a broader, more differentiated range of products that are more closely attuned to emerging market segment needs and tastes all over the world. Special emphasis is being given to innovative new-product development efforts.
- A computer firm that has traditionally emphasized the Japanese market is now emphasizing building greater trust and acceptance in other key world markets.
- An electronics firm is emphasizing the tandem development of overseas operations and export sales in order to reduce the opposition of other countries.
- A commercial bank expects to strengthen the firm's position in both its home market and its overseas market in anticipation of the entrance of foreign banks into its home markets.
- An electronics firm has identified the integration of computers and communication as the focus of the company's long-range business strategy. It considers this merging of several previously separate businesses to be part of a significant trend toward utilizing knowledge and information on a global basis. It expects the new microtechnology to overcome previously anticipated limits on world economic growth.

Japan's business executives have long assumed that their firms must do more than keep pace with the rest of the world. They believe they must actively induce changes in the competitive situation in order to survive. They are justifiably proud of the resilience, adaptability and vitality the Japanese economy has already shown and they do not expect to lose this competitive edge.

The guidance and assistance of knowledgeable Japanese nationals is very helpful to Westerners who seek to explore such issues. For example, it would be grossly oversimplifying the situation to assume that every person in Japan has "lifetime employment." Only 15 to 25 percent of the *male* work force—those who work for the largest firms or the government—are covered by a guarantee of permanent employment until retirement at age 55 to 57, with a lump-sum payment or a pension that begins at 65. It would be similarly incorrect to assume that "all promotions are based on seniority." Both of these ideas *are* woven into the complex tapestry of Japanese management, but with nothing like the directness or the lack of ambiguity that the terms, standing by themselves, would suggest. Indeed, "directness", "specificity" and "lack of ambiguity" are Western communication ideals that are so foreign to the Japanese frame of reference—especially in dealing with those at different hierarchical levels—that a Westerner's typical interviewing approach is likely be viewed by most Japanese executives as "too confrontational."[1]

[1] For further comments on this key East-West communications difference, see Richard T. Pascale and Anthony G. Athos, *The Art of Japanese Management*. New York: Simon and Schuster, 1981, pp 85-115.

Traditional Japanese Management Structure

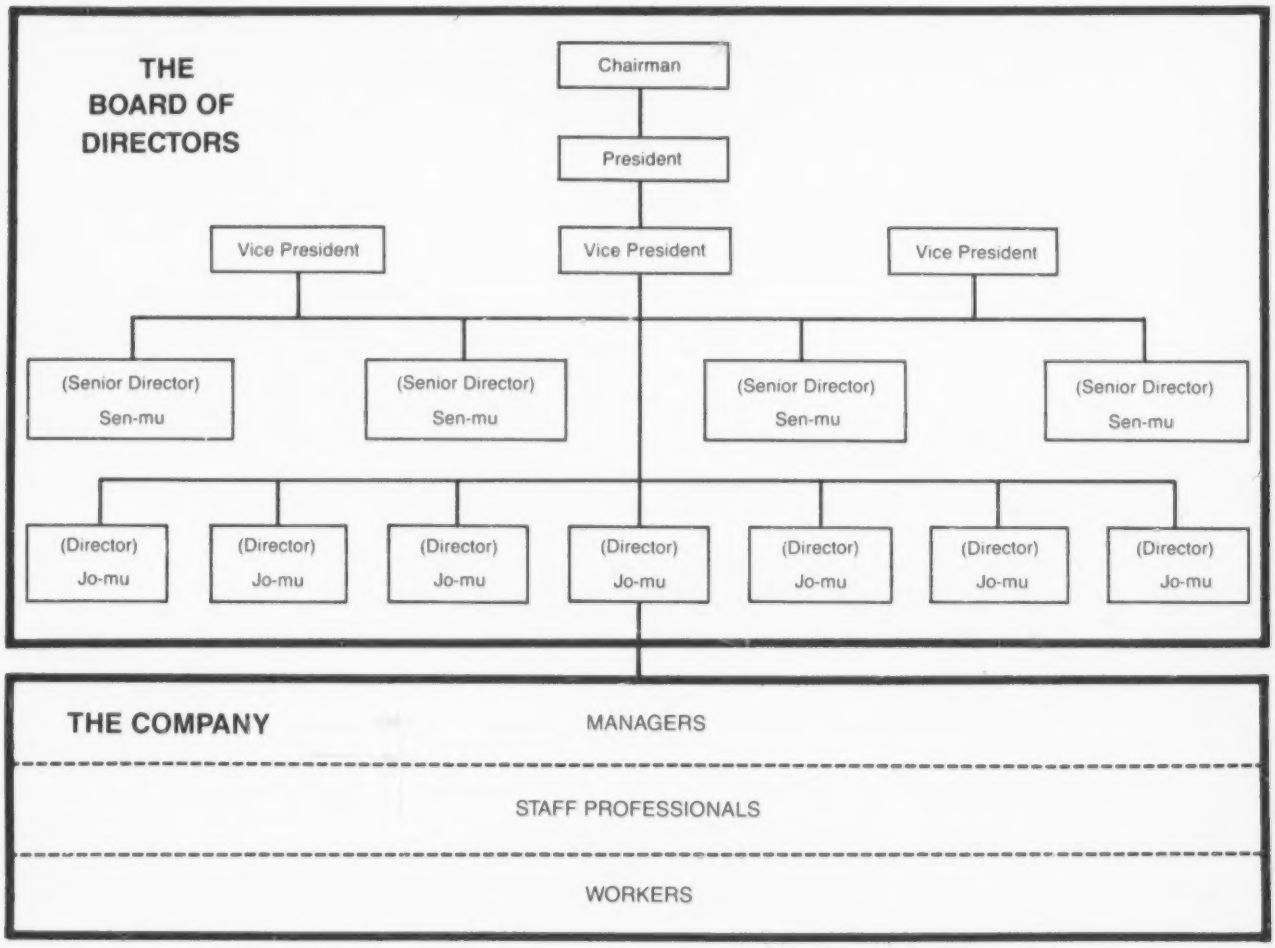
In Japan, "the company" is considered to be a group of people who have banded together to achieve common objectives. The company is managed by an executive group that is also its board of directors. Unlike the situation in Europe, Canada and the United States, all candidates for the board of directors of a major Japanese firm will almost certainly be "insiders," nominated by the chairman of the board, who will almost certainly be an insider, too.[2]

The company also has shareowners; these are generally institutions rather than individuals. To protect the shareholders' interests, whenever one of the company's managers is invited to stand for election to the board of directors, he must formally resign from the company—even though his election will actually make him a member of the firm's top-management group!

This arrangement dates back to the days when several large, family-owned combines *(zaibatsu)* were broken up. The executives who previously ran the various businesses continued to do so and were also named as members of the various boards of directors set up by the new ownership interests that

[2] See, for example, Charles A. Anderson, "Corporate Directors in Japan," *Harvard Business Review*, May-June, 1984.

Exhibit 1: A Typical Hierarchy Within the Board of Directors (The Executive Group) of a Major Japanese Company



were established—the banks, life insurance companies, and other large financial institutions that agreed to provide them with needed capital.

The Japanese tend to value long-term relationships very highly, so companies that had once been part of the same *zaibatsu* tended to continue to work closely together as a group, even though any direct ownership ties were no longer permitted. Later on, the rules about ownership were relaxed somewhat and some of the smaller companies became subsidiaries of the major firms in the group. Thus, a major Japanese company does not ordinarily stand alone: Its business is usually relatively narrowly defined, and it serves as the driving force for a vertically integrated group of companies that customarily do business with it and with each other in preference to dealing with outside firms, even other Japanese firms. (This is but one of many long-established business practices that foreign companies say make it especially difficult to penetrate the Japanese market.)

The banks or insurance firms that hold the main ownership interest in a group of companies sometimes ask the major firm in that group to help smaller members of the clan by providing managerial assistance and expertise. Thus, the smaller companies often have senior executives on their boards of directors who have previously been with the group's major firm. But because all the companies in the group work so closely together, these executives would by no means be considered "outsiders." Therefore, it is fair to say that even in subsidiary or affiliated firms the executive group—the board of directors—consists entirely of "insiders."

The Board of Directors

All told, there are likely to be 10 to 20 members of the managing board of directors of a major Japanese company. (Some companies have as many as 50, but a considerably smaller group of "representative directors" is then in charge of running things.) Each member of the firm's board of directors is ordinarily elected by the share owners for two-year terms.

Exhibit 1 shows the clear status differences among various members of the board. Both the chairman and the president, who often has the greatest overall operating responsibility, are elected by the full board; however, great

consideration is ordinarily given to the recommendations of a retiring chairman. The chairman has usually been president and, even if semi-retired, is usually still extremely influential—a situation that is not unique to Japan. Japanese companies do not ordinarily use the title "chief executive officer" and the responsibilities normally associated with such a title in the United States are generally shared by the chairman and the president without any clearly established distinctions. Traditionally, these two key executives have been the ones who have established the firm's basic strategies, with the assistance of a relatively large corporate planning staff and a relatively large personnel management staff.

In addition to these two top officers, there are likely to be from two to four board members with vice presidential titles. Below them in the hierarchy there will be from three to five senior directors *(sen-mu)* and from five to eight directors *(jo-mu)*.

Each member of the board of directors is likely to be assigned some general staff area of oversight responsibility relating to the company as a whole—for example, all financial issues; all personnel issues; corporatewide R & D issues; all external licensing issues; all government and community-relations issues; or all administrative matters. But all are expected to work together very closely as a team and to reach their decisions on the basis of consensus. Indeed, in one large automobile company the members of the board of directors do not have private offices; they all work around a very large table, using conference rooms whenever there is need for private conversations.

Individual board members in most Japanese companies do not have line responsibility for managing specific operating functions or business-related parts of the company. For example, there is no director who is in charge of all manufacturing operations or of all marketing activities; and there is no director responsible for certain specific product divisions or subsidiary businesses. Instead, the board of directors has traditionally been considered to have general oversight responsibility for the whole company.

The major operating units of the company have traditionally been headed by senior line managers immediately below the board of directors in the hierarchy. These managers are known as *yaku*. Their major actions are ordinarily subject to prior approval by the entire board of directors. The title *yaku* is often translated as "head of a division," but that conveys greater clarity of role definition than ordinarily exists in Japanese firms. It is the title generally used both for the heads of the company's profit centers or business divisions, and also for the heads of major functional operating centers, such as large production or sales units. The *yaku* title is also often conferred on the heads of major corporate-staff units, such as the head of corporate planning or the head of management development or, indeed, on any other high-level manager reporting directly to the chairman or the president.[3]

Westerners also use hierarchical titles—but those titles have immediate hierarchical significance to others in the organization. In Japan, such hierarchical titles signal complex codes of appropriate interpersonal behavior, traditionally including great deference to the opinions of those of higher rank even when they are not in a direct line of command. Thus, a vice president can ordinarily tell any lower ranking manager or director what to do, regardless of whether or not the individual officially reports to him.

The Age of Managing Board Members

With the exception of the chairman, for whom there is no established retirement age, all of the members of the company's board of directors are expected to retire when they reach age 67. Thus, if the president has not become chairman by age 67, he never will be. Similarly, if the chairman has not asked a *yaku* to stand for election as a member of the board of directors by age 63, that person must retire. Traditionally, then, the members of the board of directors of a major Japanese firm have been in their 60's and the chairman of the board has often retained that position until age 70 or more. (However, this is one of the things that is beginning to change.)

Ordinarily, the person the chairman has designated as president subsequently becomes chairman. Thanks to the intentional ambiguity in the responsibilities of these two chief executives, the transfer of power is likely to be gradual and to present no surprise to the other members of the top-management group. Indeed, the new chairman will probably be warmly and wholeheartedly accepted by the entire organization, because the selection decision will have focused on providing the most appropriate new leader for all the people who comprise the firm.

Group-Leadership Role of Top Management

Group leadership—leadership that guides and encourages the very best overall performance of the group as a whole in moving toward its common goal—constitutes the essence of the Japanese approach to corporate management. Even at the very top of the organization, the executives describe their role as being "servants of the group." The emphasis has never been on what any individual executive is achieving but, rather, on what he is helping the group to accomplish. In a way, everyone is competing to see who can be most cooperative and self-effacing in contributing to the overall effectiveness of the company.

This is not to say that there are no agreed-upon roles or assignments of general areas of responsibility to various individuals and work units at different levels in Japanese firms. However, there are no detailed position descriptions and organization charts are rare. Instead, the emphasis is on encouraging each member of the company to think through and do whatever someone with that assigned role should do

[3] For further information on the use of titles, see Vladimir Pucik, "White-Collar Human Resource Management in Large Japanese Firms," *Human Resource Management*, Fall, 1984.

to ensure that the work being done by all group members will remain in harmony.

To encourage those at lower levels in the organization to think and act together to achieve shared goals, Japanese executives frequently talk about the overall philosophies or themes that have long guided the conduct of those who are members of the particular company. Western executives often talk about shared norms or values, but in Japan these are literally described as shared spiritual qualities. Usually there are references to several different kinds of "spirits": (1) individual qualities to be demonstrated, such as a "diligence spirit" or a "sincerity spirit"; (2) characteristics to be demonstrated in group relationships, such as a "harmony spirit" or a "cooperation spirit"; and, sometimes added in relatively recent times, (3) dynamic attitudes or outlooks toward group-goal accomplishment, such as a "frontier spirit" or an "enterprise spirit." Depending upon the needs of the particular problem or situation, the executive will emphasize one or another of these attitudes to lower-level managers and employees.

The traditional Japanese *ringi* method of corporate decision making requires large numbers of managers in many different operating units and at successively higher organization levels to sign off on the feasibility of implementing a proposed course of action before a final decision to proceed will be made by top management. It takes a lot of time and it is essentially a conservative process designed to make sure scarce resources will not be wasted. But it is also a process that tends to build group commitment to the smooth, speedy implementation of the final decision, once it is made.

In contrast, top-level decision-making processes in the United States and Canada generally give only cursory attention to implementation issues in advance: They have generally been considered matters that people at lower organizational levels will have to grapple with after the basic decision has been made at the top. This approach generally has led to much quicker decisions, if not always to fully effective ones. Sometimes it has proved necessary to modify or even abort the plan and to lose whatever resources had already been invested. But when things do work out well, response time—which is viewed as a very important competitive variable—will have been saved. There are indications that both the Japanese and the North American decision-making approaches are being modified to fit today's changing competitive needs.

Traditional Japanese Approaches To Management Development

Kenichi Ohmae, who heads the office of McKinsey & Company in Japan, points out that a strong work ethic and the idea of subordinating individual interests and accomplishments to group needs are emphasized very early in the lives of all Japanese children.[4] Even before Japanese youngsters are in their teens, a screening process has begun that will determine the upper limit of each person's career. While democratization has opened upward mobility pathways to all, upper-class Japanese children enjoy certain special advantages—such as extra tutoring and constant concern and coaching at home—as they do in Western societies. Women as well as men now go on to higher education, but even though many women go to work after graduation, most take clerical or retail-sales jobs, and few move up to become business managers. The companies assume that women will want to stop working when they get married, and most of them do, although some return after their children are in school. The intermittent employment of women is a business practice that makes it possible for major firms to guarantee "lifetime employment" to the men.

The key screening event for the young men who go on to pursue a management career in a major business firm is the college-entrance examination. Those who score well are admitted to the most prestigious universities from which the major Japanese firms still recruit virtually all their new professional and managerial employees. Those who attend less prestigious schools generally find employment with smaller, less well-known firms that do not promise "lifetime employment."

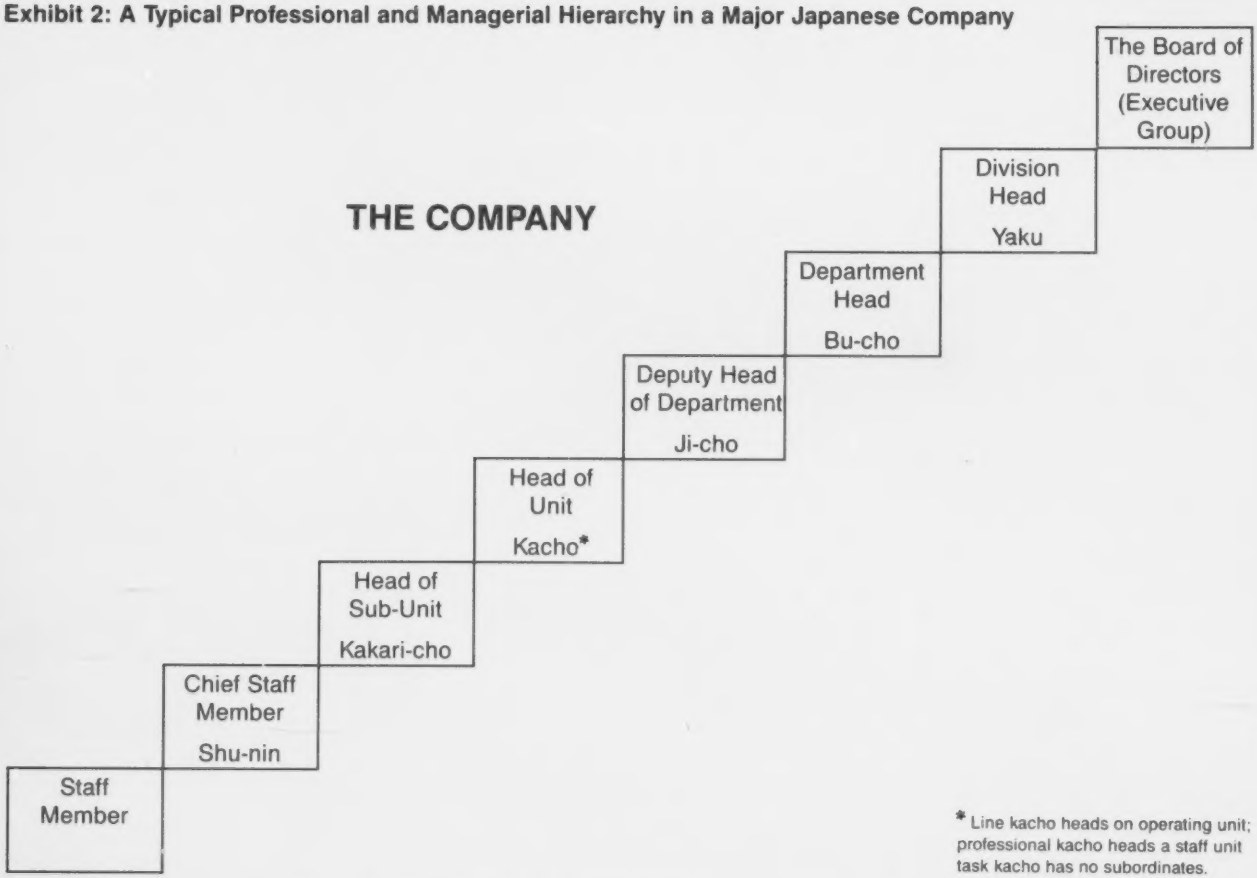
On-campus recruiting is now common not only for those who will follow technical careers but also for those destined for administrative careers. With the possible exception of those at the very top of the graduating class, within these two broad career categories scant attention is given to grades—or even to specific majors. The basic assumption seems to be that any graduate of a top-ranked university is bright enough and has already learned enough to begin to make a useful contribution to the company. The primary emphasis is on signing up those who have already demonstrated they have strong interpersonal sensitivity and leadership skills.

Once having agreed to join a major firm—and barring something like criminal or unethical conduct—the men are guaranteed employment with the firm until age 55 to 57 when they will be expected to retire unless they have attained a high managerial rank. Such "lifetime employment" provides real job security, although it generally ends eight to ten years before the individual is eligible for a pension. (During that interim period many managers work for smaller firms.) However, "lifetime employment" also means that the individual does not feel free to leave the company. No other major Japanese company would employ someone who quit before fulfilling a "lifetime-employment" commitment. However, smaller firms and foreign firms are willing to do so.

Becoming a member of the company has much broader implications than merely being a permanent working member of the group. Almost every aspect of the man's life will now revolve around the firm. In many ways the company resembles a commune, with the men having many shared interests and activities and very little time for contact with "outsiders."

[4] Kenichi Ohmae, *The Mind of the Strategist*, New York: Penguin Books, 1983, pp 227-229.

Exhibit 2: A Typical Professional and Managerial Hierarchy in a Major Japanese Company



* Line kacho heads on operating unit; professional kacho heads a staff unit task kacho has no subordinates.

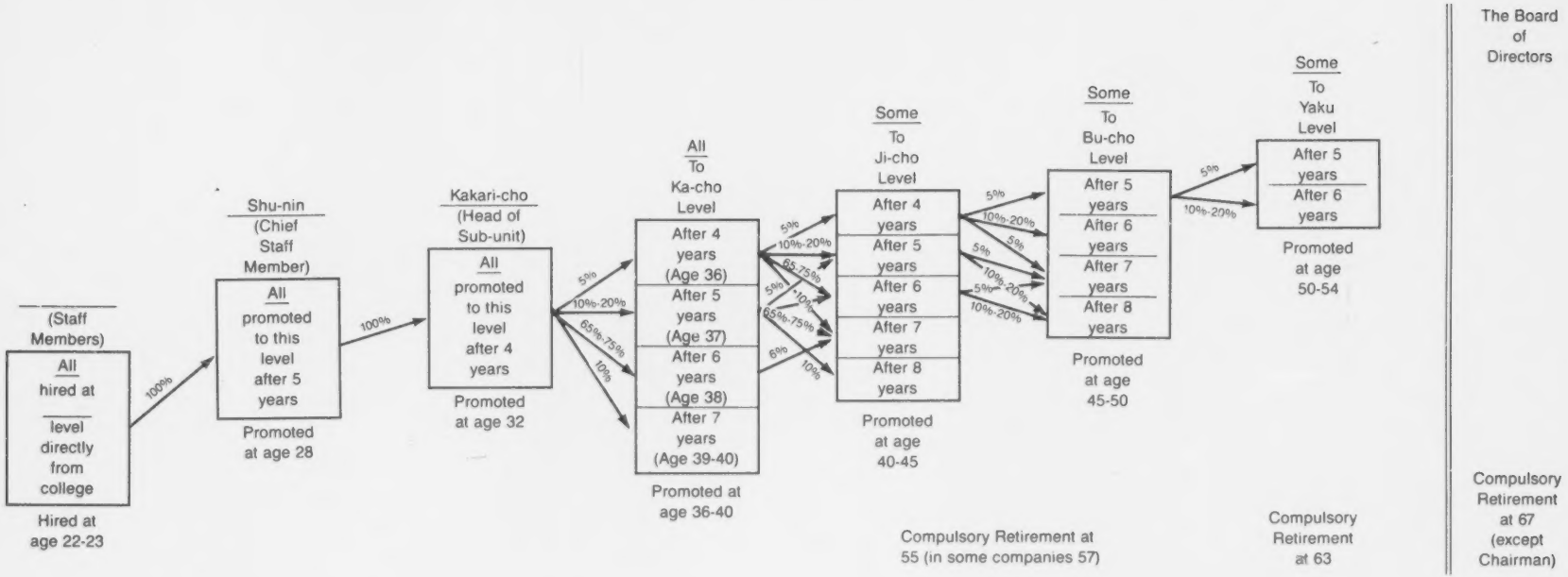
The typical professional and managerial hierarchy in a major Japanese company is shown in Exhibit 2. During their early years with the firm, the young college graduates are on an automatic promotion track, with their titles and their salaries strictly related to their age. From the time they are hired, at about 22 or 23, until they are 28, they are all staff members. During this time they will probably attend an initial orientation and training program lasting several months; have two different kinds of developmental work assignments; and participate in one or more additional training courses provided by the company. Frequent group meetings with others in the same work unit will be integral to their work experiences throughout their careers. These meetings will often be held after regular working hours when, in the more relaxed and fraternal atmosphere, it will be possible to iron out any minor differences of opinion. Subordinates may also speak more freely—but still, by Western standards, obliquely—to the head of the unit about certain individual or work unit problems that would benefit from his attention. It is during such sessions that members of the work unit hone their skills—including their role-playing abilities—in furthering group solidarity and effectiveness.[5] At the same time, the manager in charge of the work unit has opportunities to teach, to build team spirit and subtly to guide individual and group behavior toward the achievement of shared work objectives.

Exhibit 3 shows the promotion steps in a typical career pattern. All managers, no matter how outstanding, remain as heads of such units at least until they are about 36. Thus, all young managers have ample time to develop and demonstrate: (1) their basic professional competence as work-team members; and (2) their competence as group leaders. One of the ways the latter skill can be demonstrated is through election as a union leader. Japanese unions are company-specific, and it is always assumed that everyone's first loyalty is to the company. Thus, those who have been union leaders when they were sub-unit heads often move on up to relatively high-level managerial levels later on.

No matter how outstanding—or incompetent—the individual, the time schedule for these early promotions and salary changes does not vary in the traditional process. All employees also receive substantial semiannual bonuses. These may be slightly larger for those performing especially well, but the difference between the total compensation of high and low performers usually is minimal when special housing and family allowances are added in.

[5] See Mark Zimmerman, "Getting on the Japanese Wavelength," *Across the Board,* April, 1985.

Exhibit 3: Typical Timing of Managerial Promotions and Retirements in a Major Japanese Company



Another crucial screening process on the way to a top executive position begins at age 36. The next step on the promotion ladder is to *ka-cho,* the rank of someone who heads a work unit. All managers eventually achieve *ka-cho* status, but the timing varies significantly. The bulk of the managers receive this key promotion after six years, and the bottom 10 percent or so do not make *ka-cho* rank until they have spent seven years at the next lower rank.

These timing differences are important in terms of the kind of work unit the manager is likely to be assigned to head and, also, in terms of his chances for future promotions. An outstanding performer—that is, an unusually well-liked and effective group leader who has also demonstrated very good functional skills—is most likely to be promoted early and to become head of a line operating unit. A good group leader, who has especially solid technical or professional skills, is likely to be promoted next and to become head of a professional staff unit or a major project team. These two kinds of unit managers form the backbone of the company's day-to-day management. They are experienced, knowledgeable, hands-on managers who know how to get things done. Those in the bottom 10 percent or so will be promoted last. They will become task or activity managers—in charge of no one other than themselves and gradually having less and less work to do. Nonetheless, they do have the *ka-cho* title by the time they are about 40, and they are guaranteed employment until age 55 to 57 at virtually the same salary as the most effective performers at this hierarchical rank. They are sometimes described as "those who sit by the window."

The next hierarchical promotion is to the rank of a deputy head of a department *(ji-cho).* Only the best unit managers will receive this promotion. In fact, it would be highly unusual for someone who had not been in either the first or second group to be promoted to the unit-head level to go on to be promoted to deputy department head. Once again, there are differences in timing, as the exhibit shows.

The same screening process is repeated again in making promotions to the next hierarchical rank—a department head *(bu-cho).* Most of these promotions go to individuals who are between 45 and 50, and who were so competent earlier in their careers that they already have four to six years of experience as deputy department heads. Those who do not achieve the department head level by the time they are about 50 are not likely to do so at all, because everyone at or below that hierarchical level is expected to retire at age 55 to 57.

As noted earlier, the hierarchical level just below the board of directors *(yaku)* corresponds to head of a division. Promotion to this level is at the discretion of the president. The number of promotions will be adjusted to fit the expanding or contracting organizational needs of the firm. Some of the men at this level will be selected by the chairman to stand for election to the board of directors.

Recent Changes in Management Development

Many aspects of the management development approaches of major Japanese firms have withstood the test of time exceptionally well. Among these are the concept of "lifetime employment"; the comparatively long period that is allowed to evaluate performance before deciding which individuals should move ahead on a "fast track"; the centralized planning of career development sequences that stress well-rounded on-the-job learning; the emphasis on serving group needs; the reliance on individuals to think about and inform their superiors of how they believe they can best help the group achieve its shared goals; and the practice of leaving managers in the same assignment long enough for them to experience the outcome of their own actions. Nonetheless, some aspects of the Japanese management development approach are beginning to change.

Five related themes recur when Japanese business leaders discuss how the development of executives is changing to enable their companies to keep pace with today's fast-paced, increasingly global business environment:

- Greater emphasis on international experience
- Greater delegation of authority (including the introduction of business-related division structures and, even, smaller strategic business units)
- Greater emphasis on individual risk taking
- Greater emphasis on formal management education
- Greater emphasis on choosing younger business leaders attuned to the changing times

These recent trends suggest an emerging Japanese managerial paradigm that has significant similarities to the delegated strategic-management paradigm described by multinational companies headquartered elsewhere in the world. Of course, there are also some fundamental differences. But the fact that Japanese executives make explicit references to such Western ideas as business-portfolio planning, divisionalization and global market segmentation makes it probable that the growing similarity of East-West managerial approaches is not accidental. Increased contact and communication make mutual learning possible.

Emphasis on International Experience

More than representatives of any other country interviewed for this report, the Japanese feel a cultural exclusivity and an isolation from the rest of the industrialized world. All the Japanese chief executives interviewed indicated it is important for future executives to learn more about the ways of other countries and about how business is conducted outside Japan. They believe their firms will benefit from adopting some of these foreign ways—but they still want to maintain those aspects of cultural distinctiveness that have given Japan a strong competitive edge.*

Internationalization is especially important to the chief executive of a major trading company, who reported: "After World War II, we began to teach all Japanese children

* See Rosalie L. Tung, "Bridging the Cultural Divide: Human Resources Planning Reasons for Japanese Success in International Business," *The Wharton Annual 1985.*

to speak English. But since the internationalization of the world is progressing at such an erratic pace and since language is such an important factor in enabling us to run business smoothly, we believe we must supplement the English our trainees have already learned.

"As a trading company, we have branch offices and representatives in over 80 countries around the world. We hire thousands of local people in those countries, but we also use Japanese nationals in overseas assignments. The Japanese language is not likely to be understood in other countries, and this is a very big barrier for us in going into the world market. We have, therefore, been cultivating young employees who can communicate with foreigners by speaking to them in some other language, primarily English.

"We take on about 100 college graduates as trainees for the overseas market every year, putting them in outstanding foreign universities or colleges for further study. They live in a country, attending school for a year or two, so that they will really be able to communicate with customers and friends. Next, we put them in a major overseas office for another year to study how to deal in business. Then they are brought back to Japan for a couple of years to train at headquarters before being returned to the foreign office in which they were trained."

Continuing his description of how the company's top executives gradually become "internationalized," he said: "You really have to know what is happening in the whole world to be successful in the international trading business. Because our executive directors have moved through a number of key job assignments during their careers—dealing with different industries in different areas of the world—they do have the background to understand what is happening all over the world and to take appropriate action, including coping with sudden unexpected changes.

"Our main offices all over the world are connected by a very efficient private telex and computer network. We speedily gather information about what is happening in what country, what is needed in what country, and so on. Unless we know the situation day by day we can't be very successful.

"In the past, almost all our business related to Japan. But now more than 15 percent of our total business is in what we call 'off-shore business'—business between other countries that does not directly involve Japan, although it may involve Japanese companies. Because of their accumulated debt, many less-developed countries don't have the means to pay the cost of the commodities they want to buy. We are increasingly helping companies to work out 'countertrade' or 'composition deals.' A large proportion of all the world's business is being done this way. While those who have signed the General Agreement on Tariffs and Trade (GATT) may object, we see it as increasing world trade and helping to revitalize the world economy. We expect our managers and executives to become adept at this kind of international trade, too. They learn it on the job by participating in such deals."

The chief executive of a major manufacturing firm described his company's international-development approach this way: "During the past ten years our firm has put increasing emphasis on developing managers who are able to cope with the fast-paced competitiveness of the international marketplace. By now, a number of key people in the company are effectively doing business in various countries around the globe, but we need more of them and some of our higher-ranking officers still have much to learn about the implications of internationalization.

"In terms of developing executives, we think the most important way to learn is by actually doing—by conducting the business—but we have also learned that it is important for young people to have appropriate educational preparation. They need the correct perspective on what they will be trying to do so they will be better able to do it well right from the start. We believe in job rotation so that people get a broad view of our whole business. But before young employees switch from jobs in our factories to the domestic sales department, to the international department, or to handling relations with foreign subsidiaries, they take special courses to help them understand the nature and purposes of the work in these areas. Then, in consultation with the personnel department, they can better decide whether they are suited to the new work or would be better off staying where they are.

"However, the real training to become an international manager takes place in the concrete business situation. We are developing people who can perform effectively in the actual business setting. We tell them what their objectives should be; we give them some guidelines; and then we let them learn how to become successful from their own experiences. It is only by learning on the spot that one can discover if one has reached an inappropriate conclusion about how to proceed. In order to grasp the correct conclusion for a given country, we believe the manager must actually conduct the business.

"The only way it will be possible for us to do business in a country is by gaining the confidence and trust of the marketplace. By demonstrating that our products are very trustworthy and that we are not trying to pirate from others, we have been able to build a good reputation all over the world. Our training system that uses the actual business as the arena for learning has worked very well."

The chief executive of another major manufacturing firm said: "Japan is so small that a firm like ours must enter foreign markets to survive. So, 30 years ago, I started to go to foreign countries all over the world to find out how we could penetrate those markets by exporting our products *and* also by establishing business operations there. About 25 years ago—when I was in charge of technology and engineering for the company—I advised our president that we needed to establish a company in the United States in order to penetrate the market there. We needed to take our chances and establish contact with our customers and potential customers as a U.S. firm, not just as a Japanese exporter. Most of the employees should be Americans, who should be encouraged to develop their own business and not simply to consider themselves a branch of a Japanese company.

"We now have four companies in the United States with several manufacturing plants and more under construction. These U.S. companies are so strong that they are very competitive with the parent company and it won't be long before they are producing 50 percent of all the products we provide to the U.S. market. We are still interested in exporting to the U.S. market, but we are also interested in having successful business operations there.

"After we organized the company in the United States, I visited frequently, encouraging and helping them. If it had been a Japanese company, we could be confident the employees and the managers would stay for life, and so we would eventually have felt comfortable in handing over 100 percent of the subsidiary to them. But Americans feel free to leave for other jobs so, although an American can become president, I still feel I need to observe and to improve the environment for the management of that company so that he will be sure to stay with it.

"To compete, we are finding we must now focus on developing and producing more sophisticated, higher-technology components in the developed countries, including the United States and Japan, and on shifting our mass-production processes to less-developed countries, where labor costs are lower. The change is coming gradually enough so that we believe we can avoid sudden shocks. But we need to let our managers know about the overall trend so that they will understand it and prepare themselves appropriately.

"We now do business in over 145 countries. I travel all over the world every year, including visiting the United States about six times a year because of the importance of the U.S. market. I insist that all our top executives travel to the countries where we do business—to meet the people, to get acquainted, to share information, and to help them. This is also my role as chief executive—to help, to be the servant, not the master.

"We are concerned about our trade balance with Europe, and so we have established operations in Ireland. I have also personally been involved in negotiations for operations in Scotland. Almost all of the production will be for export to other European countries, so it will also be very helpful to Britain. After 30 or 40 years, I am sure these businesses will no longer be considered parts of a Japanese firm. They will be seen as local firms serving the broader European market.

"This is not a conglomerate but a multinational company with a definite philosophy focused on a vision of what society needs to accomplish—at least until the end of this century."

Several CEO's commenting on the desirability of greater international awareness and experience for tomorrow's business leaders, noted that their more senior executives had neither traveled extensively nor managed any foreign operations. In commenting on his recent selections of business-sector leaders, one chairman noted: "We have many overseas factories and distribution networks and no sector leader could manage them without a knowledge of overseas affairs, especially as they relate to trade frictions. The leaders must be able to get along with all different types of people—different races, different languages, different religions, different customs, different histories. The sector leaders must perceive these differences and must also recognize that you have to approach the developing countries and the advanced countries in different ways."

Greater Delegation of Authority

Compelled by the recognition that their operations are now too far flung, too diverse, and too complex to continue to be managed centrally in a competitive business environment, Japanese chief executives have begun to delegate much more authority. They are dividing their companies into business-related divisions and they are expecting the heads of these divisions to act more and more autonomously, no longer referring every major decision to the board of directors for approval. They are also widely distributing their R&D activities and having them report to division managements rather than to corporate level R&D. Overseas operations have typically had more autonomy, but now this kind of delegation of authority is also occurring in Japan itself. These changes in organization structure mean that a considerable number of key executives now need the general business-management skills that previously were required only by the firm's president and chairman.

The chief executive of a bank said: "Just as I urge other managers to set a good example for those below them, I keep telling our senior executives they should think like me and act like me; they should make decisions and act like a CEO. It is easy to say it, but harder to implement. The most important thing is the clear delegation of authority and responsibility. Otherwise they cannot do anything without approval and we cannot strengthen our management ability to meet increased competition.

"After having laid this groundwork for two years, about four years ago I made a change in our organizational system at corporate headquarters. We now have six business divisions, each headed by a senior managing director who has full authority and responsibility for operating that business division. Not even our president or one of our vice presidents can tell that senior managing director what to do.

"Most banks, both in Japan and in the United States, have central loan committees that evaluate the appropriateness or amount of a loan to be made to a major customer. But in this bank we no longer have such a committee; no more *ringi*. Within an agreed-upon overall limit on its total loan volume, each division has its own responsibility and power to make a bank loan without prior approval. The senior managing director of that division will report the action in a general loan review meeting so that others will be aware of the commitment of bank resources. But this is a report of an action already taken, not a request for approval.

"To enable our executives to *learn* how to think and act like the top executive, we must give them the opportunity to do just that. This enables them to make final decisions much

more quickly. It will be a definite plus for them in meeting foreign competition.

"You cannot be a successful general executive if you always favor or emphasize one aspect in your decisions; you must balance and integrate them all. For example, there are three important criteria for good decision making in banking: (1) whether the bank itself has the strength to sustain the risk; (2) whether the company has capable people to execute the action; and (3) timing, for if you are either too early or too late it will not work out. All three must be taken into account and sensitivity to the balance among them is very important, especially as one attempts to make positive contributions to the success of the bank in times of change and turmoil."

The chief executive of a major manufacturing firm said: "Our basic philosophy remains the same: (1) Management should be guided by the collective wisdom achieved when employees participate in the process, and (2) the final goal of our business is to contribute to the betterment of society by producing high quality and useful products in abundance. But the approach to achieving both those objectives must now change because we must keep pace with the changing patterns of society.

"To take into account the fact that we are going to be getting involved in an entirely new field in which we are quite inexperienced, we have decided it is time to restructure our overall company. We are establishing a product sector system in which certain kinds of products that logically go together in terms of their production and marketing needs are placed in the same product sector. Then we will give the leader of each sector great responsibility and full authority for operating that sector as a separate business—almost as if it were an independent company.

"For example, the sector head of our video products sector now has full authority for operating all the relevant product divisions in an integrated way without any higher-level approvals. Our ultimate target is to delegate full authority—not merely current profit-and-loss accountability but also authority to make capital appropriations and to arrange financing.

"Thus far we have established four sectors; there will be more. The sector heads were chosen from among the members of the board of directors, so they are also members of the overall management group for the firm as a whole. The average age of these newly appointed sector executives is about 50. That may not seem young compared to what happens in some other countries, but it certainly is young for Japan. This is part of a conscious effort in our company to shift the decision-making responsibility to the younger generations."

Greater Emphasis on Individual Risk Taking

The *ringi* method of decision making and the emphasis on accountability to the group for whatever happens in the area for which an individual is responsible both tend to reduce willingness to take risks. Some chief executives are making a conscious effort to encourage individual risk-taking by rewarding those who take the initiative—even if their efforts are not successful.

The chief executive of a bank commented: "Following our motto that the basis of our business is human resources, I knew that it was important, in order to make a change in the profitability and competitiveness of our activities, to make a change in the effectiveness of our human resources. I decided that our personnel evaluation system was one of the keys.

"As you know, promotion within the company is really an important part of the life process for each person in companies with lifetime employment. The equity, objectivity and appropriateness of the personnel-evaluation system are, therefore, extremely important. Our personnel unit keeps very extensive records on each member of the company to ensure ours will be so.

"In the evaluation of branch managers, we were emphasizing technical competence, the on-the-job training of others, and demonstrated leadership through setting an appropriate example for others to follow. But I decided we needed to give special emphasis to what I call 'the challenge spirit.' I said we should be recording and emphasizing the positive aspects of what the person has contributed to the success of the organization and no longer record the negatives. For example, one branch manager made the mistake of making a big loan that turned out to be uncollectable. I said we should forget it and not include it in his record. Otherwise everyone will be so concerned about the possibility of failing that he will be afraid to give out a big loan, and this will hurt the company's overall activities.

"Under the traditional Japanese personnel-evaluation system, the branch manager's failure would have been counted as a definite failure, and he might have been demoted or transferred to some less prestigious branch. Instead, his important positive contributions to the company were recognized and he was promoted to a larger, more prestigious branch.

"Given the Japanese mentality, after having been treated in this way, the branch manager was exceedingly grateful and redoubled his efforts to make a positive contribution. He has since been promoted to an executive position. These events have had an effect not only on him, but on all the other branch managers as well. They now understand that we won't hold a mistake against them if they are basically doing a good job. When a person like that fails once he knows what he has done and we really have to trust him to criticize himself and to try to do better in the future."

More Engaging Personal Leadership Styles

Two other CEO's noted that it was very important to change from an earlier leadership style that seemed to demand perfection and constantly drew attention to people's failings. As one put it: "In addition to their managerial skills this new generation of executives will also need to have per-

Less Frequent (but Important) Signs of Change

Some specific indications of the modification of the traditional Japanese management style did not come up often enough in spontaneous discussion to warrant being included as major indications of change. Nevertheless, the resemblance of some of these opinions to those held by non-Japanese interviewees makes them worth brief mentions.

Entrepreneurial qualities.

Several emphasized the need for a pro-active, dynamic outlook and approach to creating the company's future. The head of one manufacturing firm said: "Our company philosophy has always stressed three qualities: harmony, sincerity and frontier spirit. Now that we are faced with changing societies and a turbulent business environment, the frontier spirit has become the most important."

As the chairman of another manufacturing firm put it: "There are people who can always give you a lot of reasons why something is impossible to do. The kind of business leaders I am looking for say that—even though the possibility of success is very small—they are going to find the way to make it happen. That kind of enthusiasm and outlook is contagious. It does, indeed, make the 'impossible' possible."

General management skills.

Two CEOs—one from manufacturing and one from banking—emphasized that future business leaders needed to be generalists—individuals with sufficiently broad knowledge and understanding of how the various business functions need to be balanced and integrated harmoniously to achieve overall goals.

A solid understanding of emerging technology.

A number of interviewees said their companies were giving special leadership consideration to executives with R&D backgrounds. Only one CEO felt the nature of the company's current manufacturing businesses ensured a broad pool of such executive talent.

Two of the younger business leaders who were interviewed had R&D backgrounds, as did several of the younger presidents and sector heads who had recently been appointed by older chairmen.

sonalities that make them especially attractive to other people. They must not be seen as remote gods who are so absolutely perfect that they are impossible to get to know or to love.

"Instead, they should be seen as warm, friendly attractive human beings who have many strong points but also some minor human foibles that make them even more likable. Such a leader is truly enchanting. You know that, rather than emphasizing every little thing you do wrong, such a leader will see and concentrate on your good points, thus encouraging you to improve yourself even more."

Greater Emphasis on Formal Management Education

The chief executive of a major manufacturing company indicated that his firm had established several formal training programs in the 1960's in collaboration with various technical institutes and universities. These have now become part of a special joint institute of management development for the entire group of companies of which this company is the leader. The curriculum of the institute has recently been expanded to include courses for executives, as well for lower managerial levels.

Whether a given training program at the institute is for section managers, for division managers (including factory managers), or at the executive level (for directors), a part of the program is devoted to top-management policy. This chief executive makes presentations at the school twice a month and reports that he learns much from the informal discussions that follow. Regardless of the organizational level of the participants, he covers much the same material. But he makes his presentation more factual and quantitative for lower levels, and adapts it to the special needs of his learners. For example, if the group includes many managers from the company's foreign operations he may give greater stress to the Japanese system of lifetime employment.

The chief executive of another manufacturing firm has recently instituted a special course for renewing and revitalizing all middle-aged managers. He noted that the Japanese system forces younger managers to keep their noses to the grindstone—concentrating on learning and performing their current work assignments, with little time for pursuing outside interests or education. By the time they reach age 45, they are well aware of what their own futures in the company are likely to be, but they have a relatively narrow view of the world. This chief executive believes that at this point in their careers, all managers need to step back from their jobs for a period of time in order to renew themselves—to broaden their horizons, to recharge their batteries, and to think through how they can make the most effective contribution to the company in the future.

Because of the salutary effect an enforced three-month period away from the job (due to illness) had on his own perspectives and plans when he was about 45, he has instituted a special three-month, live-in training course for all the 45-year-old managers in the firm—regardless of their hierarchical level, their departments, or their functional expertise. Approximately one-third of the course offerings are in the humanities—art, music, literature and philosophy—with the rest being focused on international issues and on business-school-type subjects that are more closely related to the conduct of the company's affairs.

The faculty includes professors from various universities and business schools, and there are also meetings with some of the firm's top-level executives, including the chairman. Communication between the top-level executives and these middle-aged managers is deemed especially important in terms of revitalizing their interest and enthusiasm for the company and its future.

The first year in which this three-month course was instituted was a difficult one because most participants had not given the deputies they chose to fill in for them any advance preparation. By now, everyone is aware that this needs to be planned for, and so the temporary delegation of responsibility is more gradual and the work continues more smoothly. Most of the managers who take the course return to the very same work they were previously doing but with a different outlook and much greater enthusiasm. They also often learn that it is feasible to delegate much more responsibility to their subordinates.

The chief executive of another manufacturing firm commented specifically on the increased use of formal education about international business: "Japan has helped to establish the Japan-American Institute of Management Science (JAIMS) in conjunction with the University of Hawaii. We send a lot of our managers there both as teachers and as students. Those who have studied at JAIMS are now at the forefront of our sales department and of our international marketing effort. We also make use of several other special business-education programs elsewhere in the world."

Emphasis on Choosing Younger Business Leaders

Regardless of whether they headed major manufacturing firms, trading companies, or banks, the chief executives indicated that long experience in running the firm's current major business(es) would be useful background for tomorrow's business leaders. However, they stressed a whole set of other—and relatively new—characteristics as perhaps being even more useful.

Almost everyone noted that tomorrow's business leaders should be considerably younger, so that they would be more vigorous, more attuned to a rapidly changing world, and more likely to have the stamina to carry their companies through the rigors of strategic change. This represents a significant change in thinking, for until now the emphasis has been upon age and seniority in Japanese managerial careers. This has generally resulted in top-management groups that are in their 60's being chaired by individuals who are 65 to 70, or older.

The turnaround is already becoming apparent: Several of the older chairmen among those interviewed have already appointed presidents in their 50's. Such appointments sometimes arouse some resentment and resistance. One chairman noted he had to be unusually firm in supporting a young president against the older members of the board. When these older chairmen retire or become senior advisers to their boards, the younger presidents they have chosen will almost certainly move up to become the chairmen. In the meantime, they are taking an increasingly active role in directing the affairs of the company.

Two of the younger chief executives interviewed did have the title of president. Both indicated wholehearted approval of the idea of younger senior executives. Indeed, one noted two special qualifications that all future business leaders would need and suggested these were age-related: "Sensitivity to the rapidly changing world and flexibility in responding to it." Noting that the older one gets the more set one's way of thinking becomes, he has decided that all those in senior management positions, himself included, should be encouraged to retire at age 60. He also thinks those at middle-management levels and below should be permitted to work longer than they now do—say, also until age 60—so long as they remain able and strongly motivated to do so.